# ALASKA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TEACHERS' RETIREMENT SYSTEM

COMPONENT UNIT
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1991

Walter J. Hickel, Governor

STATE OF ALASKA

**DEPARTMENT OF ADMINISTRATION**

*OFFICE OF THE COMMISSIONER*

*WALTER J. HICKEL, GOVERNOR*

*P.O. BOX 110200*
*JUNEAU, ALASKA 99811-0200*
*PHONE: (907) 465-2200*
*FAX: (907) 465-2135*

December 20, 1991

The Honorable Walter J. Hickel
Governor of Alaska
P.O. Box 110001
Juneau, AK 99811-0001

Dear Governor Hickel:

It is my pleasure to submit to you the Annual Report of the Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS).

This report shows the financial condition of both the PERS and TRS funds as of June 30, 1991. It has been prepared on the basis of standards set forth by the Governmental Accounting Standards Board and Financial Accounting Standards Board and is submitted in accordance with the requirements of Alaska Statutes 39.35.020(5) (PERS) and 14.25.030(4) (TRS).

Sincerely,

Nancy B. Usera

Nancy Bear Usera
Commissioner

NBU/tz
19/6/AFR91GOV.PM4
Enclosure

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STATE OF ALASKA

**DEPARTMENT OF ADMINISTRATION**

*DIVISION OF RETIREMENT AND BENEFITS*

*WALTER J. HICKEL, GOVERNOR*

*PLEASE REPLY TO:*

☐ P.O. BOX CR
JUNEAU, AK 99811-0203
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☐ 701 EAST TUDOR RD, SUITE 240
ANCHORAGE, AK 99503-7445
PHONE: (907) 563-5885
FAX: (907) 561-6048

December 11, 1991

Commissioner Nancy Bear Usera
P.O. Box 110200
Department of Administration
Juneau, Alaska 99811-0200

Dear Commissioner Usera:

The Annual Financial Report of the Public Employees' (PERS) and Teachers' (TRS) Retirement Systems for the fiscal year ended June 30, 1991, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the systems. To the best of my knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the systems. All disclosures necessary to enable the reader to gain an understanding of the systems' financial activities have been included.

While only summarized in this letter, the Introductory, Public Employees' Retirement System, and Teachers' Retirement System sections of the report provide details for each system that will enable the reader to see the results of another successful year.

**REPORTING ENTITY**

The Legislature established the Teachers' Retirement System (TRS) on July 1, 1955, and the Public Employees' Retirement System (PERS) on January 1, 1961, to attract and retain qualified people in public service employment. In addition to providing retirement benefits, the systems also offer other valuable items such as disability and death benefits.

| | PERS | | | TRS | | |
|---|---|---|---|---|---|---|
| | FY 91 | FY 90 | FY 89 | FY 91 | FY 90 | FY 89 |
| Number of participating employers (reporting entities) | 145 | 143 | 135 | 62 | 60 | 61 |
| Number of active members | 29,840 | 29,086 | 28,058 | 8,903 | 8,586 | 8,527 |
| Number of retired members | 8,358 | 7,365 | 6,967 | 3,544 | 3,184 | 3,098 |
| Average Annual Retirement Benefit | $12,456 | $11,628 | $11,472 | $23,160 | $22,236 | $21,708 |
| Average Annual Retiree Medical Premium | $2,928 | $2,990 | $2,743 | $2,928 | $2,990 | $2,743 |

## MAJOR INITIATIVES

Chapter 69, SLA 1991, is the only legislation that passed during the 1991 legislative session which affects the systems. This chapter requires insurance coverage for mammograms for retirees who are covered under the PERS and TRS medical plans.

An automatic Post Retirement Pension Adjustment (PRPA) was granted for both systems effective July 1, 1990, due to an increase in the consumer Price Index (CPI) during the preceding calendar year.

The systems implemented cost containment measures for the retiree group medical plan effective July 1, 1991. The measures, recommended by the Legislative Health Care Cost Containment Task Force and approved by the PERS and TRS Boards, provide for:

(1) precertification for all inpatient services and selected outpatient services;

(2) a managed second opinion program for selected services;

(3) 100% coverage for care received in a skilled nursing facility in lieu of an inpatient hospital stay;

(4) travel benefits for the purpose of receiving services in a location other than the retiree's local area;

(5) a mail order prescription drug program; and

(6) reimbursement for medical expenses recovered from a third party.

## ACCOUNTING SYSTEM AND REPORTS

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Statement #35. The notes to the financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) Statement #5.

The accrual basis of accounting is used in recording financial transactions. Revenues are recognized in the accounting period in which they are earned and become measurable without regard to the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Under our cash management program receipts are deposited as received. They are recorded as undistributed deposits until they are allocated to member contributions, employer contributions, or investment income.

Management is responsible for establishing and maintaining an internal control structure for the systems that provides reasonable assurances regarding the safeguarding of assets and the reliability of financial records.

## ASSETS

At June 30, 1991, the PERS market value of net assets totalled $3,017,541,000 and those of the TRS totaled $1,824,663,000. This was a PERS increase of 9.9% and a TRS increase of 6.9% over the prior year.

## REVENUES

Funding for the systems' benefits is provided through investment income and the collection of employer and employee contributions. The revenue sources for the years ending June 30, 1991 and 1990 are shown as follows:

| | PERS | | TRS | |
|---|---|---|---|---|
| | 1991 | 1990 | 1991 | 1990 |
| Investment Income | $202,065,000 | $251,259,000 | $122,849,000 | $158,741,000 |
| Employer Contributions | 132,402,000 | 96,418,000 | 57,982,000 | 53,670,000 |
| Member Contributions | 76,486,000 | 69,720,000 | 40,059,000 | 35,224,000 |
| **Total** | **$410,953,000** | **$417,397,000** | **$220,890,000** | **$247,635,000** |

## EXPENSES

The primary expense of a retirement system is the payment of benefits. These recurring benefit payments, along with refunds of contributions to terminated employees and the cost of administering the systems comprise the total expenses of the systems. The expenditures for the years 1991 and 1990 are reflected below:

| | PERS | | TRS | |
|---|---|---|---|---|
| | 1991 | 1990 | 1991 | 1990 |
| Benefits | $122,983,000 | 107,443,000 | $95,097,000 | $80,847,000 |
| Refunds | 11,965,000 | 11,237,000 | 3,510,000 | 2,896,000 |
| Administration | 5,019,000 | 5,124,000 | 3,966,000 | 3,423,000 |
| **Total** | **$139,967,000** | **$123,804,000** | **$102,573,000** | **$87,166,000** |

## FUNDING

Funds accrue from the excess of revenues over expenses and are accumulated by the systems to meet current and future benefit obligations. An annual actuarial valuation provides the best assurance that funds will be available for current and future benefit payments.

The difference between the systems' net assets and the present value of credited projected benefits, or "projected benefit obligation," is the unfunded accrued liability, also referred to as the "unfunded pension benefit obligation." The unfunded pension benefit obligation as of June 30, 1990, was $76,032,000 for PERS and $232,788,000 for TRS.

The percentage computed by dividing the pension benefit obligation by the net assets is generally referred to as the funding ratio. The funding ratio increases as the assets available for benefits increase in proportion to the present value of benefits that have been earned. The higher the level of funding, the larger the ratio of assets accumulated and the greater the level of investment income potential. A high level of funding gives the members a greater degree of assurance that pension benefits are secure.

Although the historical level of funding for the systems is good, constant effort will continue to be directed at improving funding levels, thereby assuring the members of a financially sound retirement system. The current funding ratio, as of June 30, 1990, is 97.2% for PERS and 87.7% for TRS.

**PROFESSIONAL SERVICES**

Professional consultants are hired to perform services essential to the efficient operation of the systems. Actuarial services are provided by William M. Mercer, Incorporated. The annual financial audit of the systems was conducted by the accounting firm of Coopers & Lybrand. The systems' investment function is managed by the Alaska Department of Revenue, Division of Treasury.

**ACKNOWLEDGEMENTS**

The cooperation of the PERS and TRS employers contributes significantly to the success of the systems. We thank them for their continuing support.

The compilation of this report reflects the combined effort of the systems' staff. The information is intended to provide complete and reliable information to make sound management decisions, which protect the assets contributed by the members and their employers. The report is being mailed to all employers in the systems and other interested persons.

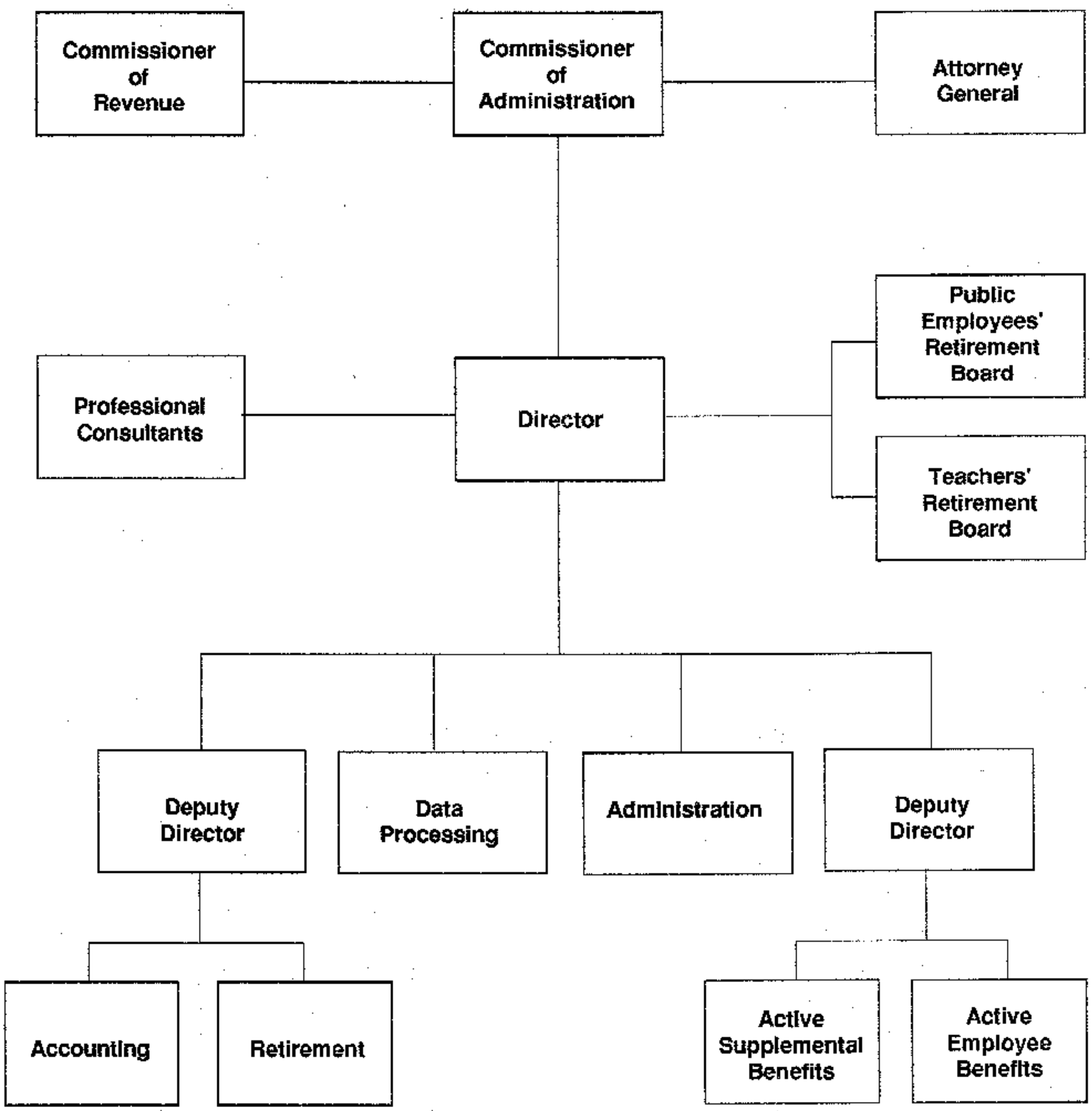
Respectfully submitted,

Gary M. Bader

Gary M. Bader
Director

GMB/tz
19/6/AFR91ILT.PM4
Enclosure

# ORGANIZATIONAL CHART



## ADMINISTRATIVE STAFF

| | |
|---|---|
| Director | Gary Bader |
| Deputy Director | Robert Stalnaker |
| Deputy Director | Michael Coughlin |
| Administrative Supervisor | David Thomson |
| Accounting Supervisor | Jerome Walkush |
| Retirement Supervisor | Bill Church |
| Supplemental Benefits Supervisor | Anselm Staack |
| Benefits Supervisor | Janet Parker |
| Data Processing Manager | William Greeson |

## PROFESSIONAL CONSULTANTS

| | |
|---|---|
| Actuary | William M. Mercer, Inc. |
| Assistant Attorney General | John Gaguine |
| Auditor | Coopers & Lybrand, CPA |
| Benefits Advisor | Deloitte-Touche |
| Insurance Carrier | Aetna Life Insurance Co. |
| Legal Advisor - Boards | Robert Johnson, Attorney |
| Medical Advisor | Dr. Mike Franklin |

# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

# PUBLIC EMPLOYEES' RETIREMENT BOARD

**James "Pat" Wellington,** Chair
Term Expires: 4/5/96

**Michael Andrews,** Vice Chair
Term Expires: 6/20/94

**S. J. Buckalew**
Term Expires: 6/20/96

**Mary A. Notar**
Term Expires: 4/5/96

**Eleanor Andrews**
Term Expires: 6/20/92

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# FINANCIAL SECTION

Coopers
&Lybrand

certified public accountants

## Report of Independent Accountants

Division of Retirement and Benefits and
Members of the Alaska Public Employees'
Retirement Board
State of Alaska
Public Employees' Retirement System
Juneau, Alaska

We have audited the accompanying statements of net assets available for benefits of the State of Alaska Public Employees' Retirement System as of June 30, 1991 and 1990, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the management of the State of Alaska, Department of Administration, Division of Retirement and Benefits. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits as of June 30, 1991 and 1990, and changes in net assets available for benefits for the years then ended, in conformity with generally accepted accounting principles.

The supplemental schedules of funding progress and revenues by source and expenses by type are not a required part of the basic financial statements of the State of Alaska Public Employees' Retirement System but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Coopers & Lybrand

Anchorage, Alaska
September 14, 1991

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

### June 30, 1991 and 1990

### ($000)

| | 1991 | 1990 |
|---|---|---|
| **Assets:** | | |
| Investments, at fair value: | | |
| United States Government securities | $ 779,480 | $ 969,468 |
| Corporate bonds, notes and debentures | 590,191 | 346,189 |
| Domestic equity fund | 1,165,967 | 854,128 |
| International equities | 176,812 | 198,346 |
| Real estate equity funds | 134,468 | 154,163 |
| Total investments | 2,846,918 | 2,522,294 |
| Loans and mortgages, at cost, net of allowance for loan losses of $4,851 in 1991 and $6,191 in 1990 | 89,065 | 96,783 |
| Receivables: | | |
| Contributions | 12,313 | 4,129 |
| Retirement incentive program | 15,003 | 9,146 |
| Accrued interest and dividends | 29,711 | 29,856 |
| Total receivables | 57,027 | 43,131 |
| Cash and cash equivalents | 29,533 | 88,794 |
| Total assets | 3,022,543 | 2,751,002 |
| **Liability** - accrued expenses | 5,002 | 4,447 |
| Net assets available for benefits | $3,017,541 | $2,746,555 |

*The accompanying notes are an integral part of the financial statements.*

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

### for the years ended June 30, 1991 and 1990

### ($000)

| | 1991 | 1990 |
|---|---|---|
| **Additions:** | | |
| Investment income: | | |
| Net (depreciation) appreciation in fair value of investments | $ (823) | $ 17,469 |
| Interest | 129,804 | 145,108 |
| Dividends | 49,422 | 32,269 |
| Net realized gains on sales | 22,323 | 56,605 |
| Total investment income before provision for losses on loans and mortgages | 200,726 | 251,451 |
| Provision for losses on loans and mortgages | 1,339 | (192) |
| Net investment income | 202,065 | 251,259 |
| Contributions: | | |
| State of Alaska and other employers | 116,404 | 88,322 |
| Employees | 75,767 | 69,344 |
| Retirement incentive program: | | |
| State of Alaska and other employers | 15,998 | 8,096 |
| Employees | 719 | 376 |
| Total contributions | 208,888 | 166,138 |
| Total additions | 410,953 | 417,397 |
| **Deductions:** | | |
| Benefits paid: | | |
| Retirement | 99,651 | 85,301 |
| Medical | 23,332 | 22,142 |
| Total benefits paid | 122,983 | 107,443 |
| Refunds to terminated employees | 11,965 | 11,237 |
| Administrative expenses | 5,019 | 5,124 |
| Total deductions | 139,967 | 123,804 |
| Net increase | 270,986 | 293,593 |
| **Net assets available for benefits:** | | |
| Beginning of year | 2,746,555 | 2,452,962 |
| End of year | $3,017,541 | $2,746,555 |

*The accompanying notes are an integral part of the financial statements.*

## 1. Description of State of Alaska Public Employees' Retirement System (Plan):

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

### General

The Plan is the administrator of an agent multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State employees and employees of its local government. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. At June 30, 1991, the number of participating local government employers was:

| | |
|---|---|
| Municipalities | 74 |
| School districts | 51 |
| Other | 20 |
| Total employers | 145 |

Inclusion in the Plan is a condition of employment for eligible State employees except, as otherwise provided, for judges and elected officers. Any local government in the State may elect to have its permanent general, police and fire department employees covered by the Plan. At June 30, 1990, Plan membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits | 10,110 |
| Current employees: | |
| General | 26,667 |
| Police and fire | 2,419 |
| | 29,086 |
| Total | 39,196 |

*Continued*

**1. Description of State of Alaska Public Employees' Retirement System (Plan), Continued:**

**General, Continued**

| | |
|---|---|
| Current employees: | |
| Vested: | |
| General | 14,109 |
| Police and fire | 1,683 |
| Nonvested: | |
| General | 12,558 |
| Police and fire | 736 |
| Total | 29,086 |

**Pension Benefits**

Employees hired prior to July 1, 1986 with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement at age fifty. For employees hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Employees with thirty or more years of credited service (twenty years for peace officers and firemen) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. The average monthly compensation is based on the three highest, consecutive years salaries.

The benefit related to all years of service earned prior to July 1, 1986 and for years of service through a total of 10 years for general employees is equal to 2% of the employee's average monthly compensation for each year of service. The benefit for over 10 years of service subsequent to June 30, 1986 is equal to 2-1/4% of the employee's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For police and fire employees, the benefit for years of service through a total of 10 years is equal to 2% of the employee's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

*Continued*

1. **Description of State of Alaska Public Employees' Retirement System (Plan), Continued:**

**Pension Benefits, Continued**

Married employees must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1986 and (2) employees who are disabled or age 65 or older, regardless of their initial hire dates. Employees first hired after June 30, 1986 may receive major medical benefits prior to age 65 by paying premiums.

**Death and Disability Benefits**

If an active employee dies from occupational or nonoccupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average monthly compensation at the time of his/her death and the credited service that would have occurred if the employee had lived and continued to work until normal retirement date.

Active employees who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age. Although there is no minimum service requirements for employees to be eligible for occupational disability, employees must be vested to receive nonoccupational disability benefits. The monthly disability benefit is equal to 40% of the employee's salary at the time of the disability. At normal retirement age the disabled employees begin receiving normal retirement benefits.

**Effect of Plan Termination**

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

2. **Summary of Significant Accounting Policies:**

**Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting.

**Valuation of Investments**

Investments, other than real estate equity funds and loans and mortgages, are carried at market value to reflect their asset values as determined by the last quoted market price at June 30, 1991 and 1990.

Real estate equity funds are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

Loans and mortgages are serviced by the institution from which the loan is purchased. The policy of the Plan is to hold these investments until maturity and, accordingly, the investments are stated at cost, less an allowance for estimated loan losses. Loans and mortgages include approximately $12,384,000 and $13,982,000 for 1991 and 1990, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

The investment activity of all common stocks was consolidated October 1, 1987 with the common stocks of other State funds to form a domestic equity fund. The activity and the June 30, 1991 and 1990 balances of this domestic equity fund are accounted for on a unit-accounting basis. All income and realized and unrealized gains are allocated monthly to each participating fund on a pro-rata ownership basis. All income earned is included in dividend income. At June 30, 1991 and 1990, the Plan's investment in the domestic equity fund is comprised of the following ($000):

| | 1991 | 1990 |
|---|---|---|
| Domestic equities | $1,162,408 | $793,529 |
| Interest and dividends receivables | 3,359 | 2,377 |
| Cash and cash equivalents | 200 | 58,222 |
| | $1,165,967 | $854,128 |

*Continued*

**2. Summary of Significant Accounting Policies, Continued:**

**Valuation of Investments, Continued**

International equities at June 30, 1991 and 1990 are comprised of the following ($000):

| | 1991 | 1990 |
|---|---|---|
| Foreign equities | $164,114 | $188,128 |
| Cash and cash equivalents | 12,698 | 10,218 |
| | $176,812 | $198,346 |

Cash and cash equivalents at June 30, 1991 and 1990 are comprised of the following:

| | 1991 | 1990 |
|---|---|---|
| Repurchase agreement | $26,300 | $18,733 |
| Investment maturities in transit | 1,825 | 64,000 |
| Interest bearing deposits | 1,408 | 6,061 |
| | $29,533 | $88,794 |

State of Alaska treasury investment policy requires that securities underlying repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement.

The Commissioner of Revenue has the statutory authority to invest the monies of the Plan. This authority is delegated to investment officers of the Treasury Division of the Department of Revenue. Alaska Statute provides for the investment in United States Treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

*Continued*

## 2. Summary of Significant Accounting Policies, Continued:

### Investments, Continued:

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1991, the Plan's deposits and investments are categorized as follows:

**Deposits**

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

**Investments**

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name.

| | Category ($000) | | | Market Value |
|---|---|---|---|---|
| | #1 | #2 | #3 | (Carrying Value) |
| Deposits - cash | $ 29,533 | | | $ 29,533 |
| Investments: | | | | |
| United States Government securities | 779,480 | | | 779,480 |
| Corporate bonds, notes and debentures | 590,191 | | | 590,191 |
| Domestic equity fund | 1,165,967 | | | 1,165,967 |
| International equities | 176,812 | | | 176,812 |
| Real estate equity funds | 134,468 | | | 134,468 |
| | $2,876,451 | | | $2,876,451 |

*Continued*

## 2. Summary of Significant Accounting Policies, Continued:

### Investments, Continued

During 1991 and 1990, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows ($000):

| | 1991 | 1990 |
|---|---|---|
| United States Government securities | $ 3,952 | $ (26,656) |
| Corporate bonds, notes and debentures | 2,399 | (8,814) |
| Domestic equity fund | 42,269 | 45,214 |
| International equity | (23,094) | 8,293 |
| Real estate equity funds | (26,349) | (568) |
| | $ (823) | $ 17,469 |

The cost, market and carrying values of the Plan's investments at June 30, 1991 and 1990 are as follows ($000):

| | 1991 | | |
|---|---|---|---|
| | Cost | Market | Carrying Value |
| United States Government securities | $ 712,544 | $ 779,480 | $ 779,480 |
| Corporate bonds, notes and debentures | 581,707 | 590,191 | 590,191 |
| Domestic equity fund | 1,028,345 | 1,165,967 | 1,165,967 |
| International equities | 185,214 | 176,812 | 176,812 |
| Real estate equity funds | 146,681 | 134,468 | 134,468 |
| Loans and mortgages, net of allowance for loan losses of $4,851 | 89,065 | 93,644 | 89,065 |
| | $2,743,556 | $2,940,562 | $2,935,983 |

*Continued*

**2. Summary of Significant Accounting Policies, Continued:**

**Investments, Continued**

| | 1990 | | |
|---|---|---|---|
| | **Cost** | **Market** | **Carrying Value** |
| United States Government securities | $ 906,484 | $ 969,468 | $ 969,468 |
| Corporate bonds, notes and debentures | 340,104 | 346,189 | 346,189 |
| Domestic equity fund | 758,775 | 854,128 | 854,128 |
| International equities | 183,654 | 198,346 | 198,346 |
| Real estate equity funds | 140,027 | 154,163 | 154,163 |
| Loans and mortgages, net of allowance for loan losses of $6,191 | 96,783 | 100,355 | 96,783 |
| | $2,425,827 | $2,622,649 | $2,619,077 |

**Contributions Receivable**

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

**Accrued Interest and Dividends**

Accrued interest and dividends represent amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables has been reflected in the financial statements. Accrued interest on loans and mortgages is not recorded until received.

**3. Funding Status and Progress:**

The amount shown below as "pension benefit obligation", which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in Note 4 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1990 are as follows:

a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.

b. Mortality basis - 1984 Unisex Pension Mortality Table set back one and one-half years.

c. Retirement age - retirement rates based on actual experience.

d. Interest rate - 9% per annum, compounded annually, net of investment expenses.

e. Health cost inflation - 9% per annum.

f. Salary scale - increase of 6.5% for the first five years of employment and 5.5% per year thereafter.

g. Cost of living allowance (domicile in Alaska) - 69% of those receiving benefits will be eligible to receive the cost of living allowance.

*Continued*

**3. Funding Status and Progress, Continued:**

h. Contribution refunds - 100% of those terminating after age thirty-five with five or more years of service will leave their contributions and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

i. Asset valuation - five-year average ratio between market and book values of the Plan's assets, except that fixed income investments are carried at book value. Valuation assets cannot be outside of the range of book and actuarial values.

Turnover and disability assumptions are based upon actual historical occurrence rates of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1990, the unfunded pension benefit obligation was $7.0 million, as follows ($ in millions):

| | |
|---|---|
| Net assets available for benefits as of June 30, 1990, at market, as more fully described in Note 2 | $ 2,746.6 |
| Pension benefit obligation: | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | 1,285.1 |
| Current employees: | |
| Accumulated employee contributions including allocated investment income | 380.7 |
| Employer-financed vested | 973.3 |
| Employer-financed nonvested | 114.5 |
| Total pension benefit obligation as of June 30, 1990 | 2,753.6 |
| Unfunded pension benefit obligation as of June 30, 1990 | $ 7.0 |

4. **Contributions:**

**Employees' Contributions**

Prior to January 1, 1987, employees contributed 4.25% of their compensation, except for peace officers and firemen, who contributed 5% of their compensation to the Plan. Effective January 1, 1987, contribution rates increased to 7.5% for peace officers and firemen and 6.75% for other employees, as required by statute. The employee contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan. Present employees' accumulated contributions at June 30, 1991 were $497,789,000. Employees' contributions earn interest at the rate of 4.5% per annum, compounded semi-annually.

**Employers' Contributions**

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following ($000):

| | 1991 | 1990 |
|---|---|---|
| State and other: | | |
| Employers | $116,404 | $ 88,322 |
| Employee | 75,767 | 69,344 |
| | $192,171 | $157,666 |
| Normal cost | $166,074 | $156,483 |
| Amortization of unfunded actuarial accrued liability | 26,097 | 1,183 |
| | $192,171 | $157,666 |

Continued

**4. Contributions, Continued:**

**Employers' Contributions, Continued**

Actuarial valuations for 1991 and 1990 were performed as of June 30, 1990 and 1989, respectively.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in Note 3.

**5. Retirement Incentive Program:**

Legislation passed in May 1986 established a retirement incentive program (RIP) designed to encourage eligible employees to voluntarily retire in order to reduce personal services costs. The program was available to eligible State employees until June 30, 1987, University of Alaska employees from October 1, 1986 to September 30, 1987, and all other employees from January 1, 1987 to December 31, 1987.

Legislation was passed in June 1989 and amended effective April 1, 1990, establishing a second retirement incentive program. The second program was available to state employees from October 1, 1989 through March 31, 1990, University of Alaska employees from July 1, 1989 through December 31, 1989, and all other employees from October 1, 1989 through March 31, 1991.

The retirement incentive program receivables represent the reimbursement due from employers participating in the programs and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan for the following percentage of their annual compensation for the calendar year in which the employee terminated employment to participate in the program:

| | 1986 RIP | 1989 RIP |
|---|---|---|
| Police and fire members | 15% | 22.5% |
| Other members | 12.75% | 20.25% |

*Continued*

**5. Retirement Incentive Program, Continued:**

Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

The effect of the 1986 retirement incentive program on the pension benefit obligation was fully accounted for in the June 30, 1988 actuarial valuation. The effect of the 1989 program on the pension benefit obligation has been and will be accounted for in the June 30, 1990 and 1991 actuarial valuations, respectively, as the eligible employees retire.

**6. Ten-year Historical Trend Information:**

Ten-year historical trend information (where available) designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented on the accompanying supplemental schedules of analysis of funding progress and revenues by source and expense by type.

# STATE OF ALASKA

# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

# REQUIRED SUPPLEMENTARY INFORMATION

# ANALYSIS OF FUNDING PROGRESS

(Unaudited)

($000)

| Year Ended June 30, | Net Assets Available | Pension Benefit Obligation | Percentage Funded | Unfunded (Assets In Excess of) Pension Benefit Obligation | Annual Covered Payroll | Unfunded (Assets in Excess of) Pension Benefit Obligation as of Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 1985 | $1,295,536 | $1,446,672 | 89.6% | $151,136 | $830,579 | 18.2 % |
| 1986 | 1,739,843 | 1,556,610 | 111.8 | (183,233) | 890,092 | (20.6) |
| 1987 | 2,010,196 | 1,905,005 | 105.5 | (105,191) | 891,302 | (11.8) |
| 1988 | 2,123,695 | 2,246,583 | 94.5 | 122,888 | 908,363 | 13.5 |
| 1989 | 2,452,962 | 2,563,268 | 95.7 | 110,306 | 912,834 | 12.1 |
| 1990 | 2,746,555 | 2,753,518 | 99.7 | 6,963 | 952,070 | .7 |

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

*See notes to financial statements.*

## STATE OF ALASKA
## PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## REQUIRED SUPPLEMENTARY INFORMATION

## REVENUES BY SOURCE AND EXPENSES BY TYPE

(Unaudited)

($000)

**REVENUES BY SOURCES**

| Year Ended June 30, | Employee Contributions | Employer Contributions | Investment Income | Unrealized Appreciation (Depreciation) In Market Value | Total |
|---|---|---|---|---|---|
| 1982 | $ 28,918 | $ 88,332 | $ 51,757 | $(16,725) | $152,282 |
| 1983 | 32,595 | 99,727 | 86,002 | 53,099 | 271,423 |
| 1984 | 36,765 | 114,245 | 101,371 | (74,541) | 177,840 |
| 1985 | 39,577 | 123,466 | 112,261 | 117,733 | 393,037 |
| 1986 | 42,626 | 127,727 | 182,140 | 159,873 | 512,366 |
| 1987 | 51,879 | 103,719 | 225,792 | (27,799) | 353,591 |
| 1988 | 66,732 | 108,767 | 154,468 | (112,755) | 217,212 |
| 1989 | 65,104 | 78,932 | 194,653 | 108,088 | 446,777 |
| 1990 | 69,720 | 96,418 | 233,790 | 17,469 | 417,397 |
| 1991 | 76,486 | 132,402 | 202,888 | (823) | 410,953 |

**EXPENSES BY TYPE**

| | Retirement Benefits | Medical Benefits | Refunds to Terminated Employees | Administrative Expenses | Total |
|---|---|---|---|---|---|
| 1982 | $ 24,062 | $ 3,375 | $ 7,205 | $ 1,611 | $ 36,253 |
| 1983 | 28,401 | 4,541 | 7,683 | 2,342 | 42,967 |
| 1984 | 33,060 | 6,939 | 8,923 | 1,776 | 50,698 |
| 1985 | 39,487 | 9,350 | 9,553 | 3,813 | 62,203 |
| 1986 | 45,916 | 9,411 | 9,165 | 3,567 | 68,059 |
| 1987 | 57,473 | 10,256 | 10,524 | 4,985 | 83,238 |
| 1988 | 73,964 | 11,376 | 11,409 | 6,964 | 103,713 |
| 1989 | 82,389 | 18,065 | 11,188 | 5,868 | 117,510 |
| 1990 | 85,301 | 22,142 | 11,237 | 5,124 | 123,804 |
| 1991 | 99,651 | 23,332 | 11,965 | 5,019 | 139,967 |

Contributions, including contributions for the retirement incentive program, were made in accordance with actuarially determined contribution requirements.

*See notes to financial statements.*

# STATE OF ALASKA
# PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### (Unaudited)

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan's actuarial funding method for the years ended June 30, 1979 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

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# ACTUARIAL SECTION

## Highlights

This report has been prepared by William M. Mercer, Incorporated to:

(1) present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 1990;

(2) review experience under the plan for the year ended June 30, 1990;

(3) determine the appropriate contribution rates for the State and each political subdivision in the system;

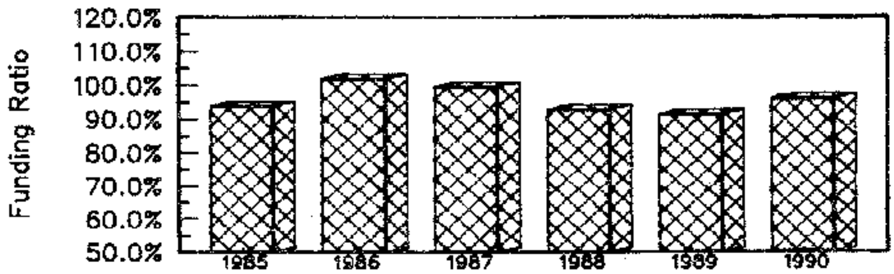
(4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1989-90 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

| | | 1989 | 1990 |
|---|---|---|---|
| Funding Status as of June 30: | | | |
| (a) | Valuation Assets* | $ 2,348,423 | $ 2,677,486 |
| (b) | Accrued Liability* | 2,563,268 | 2,753,518 |
| (c) | Funding Ratio, (a) / (b) | 91.6% | 97.2% |




* In thousands.

| Employer Contribution Rates For Fiscal Year: | | 1992 | 1993 |
|---|---|---|---|
| (a) | Consolidated Rate | 12.00% | 12.83% |
| (b) | Average Past Service Rate | 2.20% | .75% |
| (c) | Average Total Contribution Rate | 14.20% | 13.58% |

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

Brian R. McGee, FSA
Principal

Peter L. Godfrey, FIA, ASA
Consulting Actuary

BRM/PLG/JWJ/jls

April 11, 1991

# ANALYSIS OF THE VALUATION

As shown in the Highlights section of this report, the funding ratio as of June 30, 1990 has increased from 91.6% to 97.2%, a 5.6% increase. The average employer contribution rate has decreased from 14.20% of payroll to 13.58%, a reduction of 0.62%. The reasons for the change in the funded status and contribution rate are explained below.

## 1. Retiree Medical Insurance

During the year ended June 30, 1990, the System experienced an actuarial gain of $96,813,000 due to the reduction in retiree medical premiums.

Because, in recent years, the adverse retiree medical premium experience was a major reason for the rapidly increasing employer contribution rate and the deteriorating funding ratio, it is certainly welcome news to be able to comment on a stabilization in retiree medical premiums.

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS.

| Fiscal Year | Monthly Premium Per Retiree For Health Coverage | Annual Percentage Increase | Average Annual Increase Since 1978 |
|---|---|---|---|
| 1977 | $ 34.75 | — | — |
| 1978 | 57.64 | 66% | — |
| 1979 | 69.10 | 20% | 20% |
| 1980 | 64.70 | - 6% | 6% |
| 1981 | 96.34 | 49% | 19% |
| 1982 | 96.34 | 0% | 14% |
| 1983 | 115.61 | 20% | 15% |
| 1984 | 156.07 | 35% | 18% |
| 1985 | 191.85 | 24% | 19% |
| 1986 | 168.25 | -12% | 14% |
| 1987 | 165.00 | - 2% | 12% |
| 1988 | 140.25 | -15% | 9% |
| 1989 | 211.22 | 51% | 13% |
| 1990 | 252.83 | 20% | 13% |
| 1991 | 243.98 | - 4% | 12% |
| 1992 | 243.98 | -- | 11% |

As you can see from the above table, the monthly retiree medical premium reduced to $243.98 during the year from $252.83, a decrease of 3.50%. The premium for the 1992 fiscal year remained unchanged.

As noted in last year's valuation report, the State has seen a dramatic shift to post-65 rates which have increased considerably faster than pre-65 rates. However, both rates reduced by 3.50% in FY91 and have remained unchanged for FY92, resulting in the first actuarial gain from medical benefits for the System since the June 30, 1987 valuation of the System.

The effect on the past service contribution rate of this reduction in retiree medical premiums was a reduction of 0.95% of payroll. The effect on the consolidated rate was a reduction of 0.47%, resulting in a reduction in the average total employer contribution rate due to medical benefits of 1.42% of payroll.

**2. Investment Performance**

The System once again experienced actuarial gains arising from the investment performance of the Trust assets. Although the return as measured by market values was lower this year than last year, the effect of the five-year smoothing was to increase the return as measured by valuation assets from last year. The approximate rate of return based on market values was 9.94% and the rate based on valuation assets was 11.87%. The resulting actuarial gain was $68,112,000 which had the effect of reducing the average employer contribution rate by 0.67%.

**3. Salary Increases**

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of $6,991,000 which generated a reduction in the average employer contribution rate of 0.07% of payroll.

**4. Employee Data**

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased 3.7%, from 28,044 at June 30, 1989 to 29,086 at June 30, 1990. The average age of active participants increased from 40.17 to 40.37 and average credited service increased from 6.66 to 6.82 years.

The number of retirees and beneficiaries increased 5.7%, from 6,967 to 7,365, and their average age increased from 63.28 to 63.62. There was an 18.6% increase in the number of vested terminated participants from 2,314 to 2,745. Their average age reduced slightly from 42.97 to 42.96.

The overall effect of these participant data changes was an actuarial loss of $7,216,000, resulting in an increase in the past service contribution rate of 0.07% of payroll. These demographic changes also had the effect of increasing the consolidated rate by 0.61%, resulting in an increase in the average total employer contribution rate of 0.68% of payroll.

**Retirement Incentive Program**

The second Retirement Incentive Program has been available to University of Alaska participants since July 1, 1989 and to other participants since October 1, 1989. The number of new retirees increased from 370 at June 30, 1989 to 495 at June 30, 1990. Although the full effect of the R.I.P. may not be seen until next year's valuation, the R.I.P. was responsible in part for the increase in the number of new retirees.

As with the first R.I.P., the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the R.I.P. are met, the total cost to the System will be equal to the employers' payments.

**Summary**

The following table summarizes the sources of change in the average employer contribution rate:

| | | |
|---|---|---|
| (1) | Last year's average employer contribution rate | 14.20% |
| (2) | Decrease in past service rate due to retiree medical insurance | (0.95%) |
| (3) | Decrease in consolidated rate due to retiree medical insurance | (0.47%) |
| (4) | Decrease due to investment performance | (0.67%) |
| (5) | Decrease due to salary increases | (0.07%) |
| (6) | Increase in past service rate due to demographic experience | 0.07% |
| (7) | Increase in consolidated rate due to demographic experience | 0.61% |
| (8) | Impact of all other factors | 0.86% |
| (9) | Average employer contribution rate this year | 13.58% |

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. These two factors were largely responsible for the increase in the System's funded status to 97.2% of accrued liabilities.

# SUMMARY OF THE ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

**(1) Effective Date**

January 1, 1961, with amendments through June 30, 1990. Chapter 82, 1986 Session Laws of Alaska, created a two-tier retirement system. New members who are first hired under the PERS after June 30, 1986 are entitled to different benefits than those members who were hired before July 1, 1986.

**(2) Administration of Plan**

The Commissioner of Administration is responsible for administration of the system; the Public Employees' Retirement Board prescribes policies and adopts regulations to carry out provisions of the system; and the Commissioner of Revenue invests the funds. The Attorney General represents the system in legal proceedings.

**(3) Employers Included**

State of Alaska, political subdivisions, and public organizations who have elected to join the system.

**(4) Employees Included**

Membership in the Alaska PERS is compulsory for all full-time and part-time employees of the State and participating political subdivisions, including elected officials who have chosen to participate.

University of Alaska employees who elect to participate in the University's optional retirement plan and employees who are participating in other retirement plans that are funded by the State are not covered by the PERS. However, certain members of the Alaska Teachers' Retirement System (TRS) are eligible for PERS retirement benefits for their elected public official service with municipalities. Additionally, employees who work half-time in the PERS and the TRS simultaneously are eligible for half-time PERS and TRS credit.

PERS members who receive PERS occupational disability benefits are also covered under the PERS and earn service credit while they are on disability.

**(5) Credited Service**

Members receive credit for each day of PERS-covered employment.

Permanent part-time employees who work at least 15 hours per week, but less than 30 hours, receive service credit on a proportionate basis.

PERS members may claim PERS credit for the following service:

- part-time State of Alaska service rendered after December 31, 1960, and before January 1, 1976.

- service with the State, former Territory of Alaska, or U.S. Government in Alaska before January 1, 1961;

- past peace officer, correctional officer, fire fighter, and special officer service after January 1, 1961;

- military service (not more than five years may be claimed);

- temporary service after December 31, 1960;

- elected official service before January 1, 1981;

- Alaska Bureau of Indian Affairs service;

- half-time service that was rendered to PERS employers by employees who were also working in half-time positions covered by the Teachers' Retirement System; and

- leave without pay service after June 13, 1987, while the members were receiving Workers' Compensation.

Except for service before January 1, 1961, with the State, former Territory of Alaska, or U.S. Government in Alaska, contributions are required for all past service.

Past service rendered by employees of participating political subdivisions that occurred before the employers joined the PERS may be creditable if the employers agree to the pay required contributions.

### (6) Computation of Average Monthly Compensation

A member's average monthly compensation is determined by averaging the highest salaries that the member received for any three consecutive payroll years. A member must have a minimum of 115 days of credited service in the last year worked to include it as one of the three highest.

### (7) Employer Contributions

Separate contribution rates are established for each employer equal to the sum of:

(a) Consolidated Rate

A uniform rate for all participating employers sufficient to amortize all future service liabilities (less value of employee contributions) over the future working lifetimes of the covered group.

(b) Past Service Rate

A rate determined separately for each employer sufficient to amortize such employer's unfunded past service liability with level payments over 25 years. Any funding surplus is amortized over five years.

## (8) Employee Contributions

**Mandatory Employee Contributions:** 7.5% of compensation for police and fire members; 6.75% of compensation for all other members. Employee contributions are deducted from the gross salary before federal income tax is withheld.

*Note:* Prior to January 1, 1987, rates were 5% for police and fire and 4.25% for all other members. Employee contributions were deducted from the gross salary after federal income tax was withheld.

**Interest Credited:** 4.5% compounded semiannually on June 30 and December 31.

**Refund of Contributions:**

- If a nonvested member terminates PERS employment and has less than $1,000 in his or her contribution account, the balance of the account (mandatory and voluntary contributions, indebtedness payments and interest earned) will be refunded to the member unless the member elects in writing not to receive a refund.

- Vested members and members who have more than $1,000 in their accounts may withdraw their contributions by requesting refunds.

  *Note:* The contribution accounts of terminated members may be attached to satisfy claims made under Alaska Statute 09.38.065, federal income tax levies and valid Qualified Domestic Relations Orders.

**Reinstatement of Contributions:** If mandatory contributions are refunded or withdrawn, the member must return to PERS employment in order to reinstate the refunded service. Upon reemployment, an indebtedness may be established for the amount of the refund. Contributions that are attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time; the member is not required to return to PERS employment. The indebtedness will accrue interest until it is paid in full or the member retires, whichever occurs first.

**Refund at Death:** If no survivor's pension is payable upon the member's death, the member's contribution account balance, including mandatory and voluntary contributions, indebtedness payments, and interest earned, will be paid to the designated beneficiary. When the member has more than one year of PERS credit, the beneficiary will also receive an additional $1,000 plus $100 for each year of PERS credit.

## (9) Normal Retirement Benefit

**Eligibility:**

(a) Upon attaining age 60 (age 55 for members who participated before July 1, 1986) and meeting one of the following service requirements):

  (i) Five years of paid-up PERS service; or

  (ii) 60 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS before May 30, 1987; or

(iii) 80 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS after May 29, 1987; or

(iv) two years of paid-up PERS service if the member is vested in the Teachers' Retirement System; or

(b) At any age after meeting one of the following service requirements:

(i) 20 years of paid-up PERS service as a peace officer or fire fighter; or
(ii) 30 years of paid-up PERS service for "all other" members.

**Type:**

Life only, level income, or optional joint and survivor benefit (actuarially reduced).

**Amount:**

Others

2% of average monthly compensation for the first ten years of service, 2.25% for the next ten years, and 2.5% for all remaining years. Service before July 1, 1986 is credited at 2%.

Police & Fire

2% of average monthly compensation for the first ten years of service plus 2.5% for years of service in excess of ten.

Minimum Benefit

$25.00 per month for each year of credited service.

**(10) Early Retirement Benefit**

**Eligibility:**

Upon attaining age 55 (age 50 for members who participated before July 1, 1986) and meeting one of the following service requirements:

(i) Five years of paid-up PERS service; or

(ii) 60 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS before May 30, 1987; or

(iii) 80 days of paid-up PERS service if the member was an employee of the legislature during each of five legislative sessions and was first hired under the PERS after May 29, 1987; or

(iv) two years of paid-up PERS service if the member is vested in the Teachers' Retirement System.

**Type:**

Life only, level income, or optional joint and survivor benefit (actuarially reduced).

**Amount:**

Actuarial equivalent of normal retirement benefit (see 9 above) based on service and compensation to early retirement date.

**(11) Deferred Benefit**

**Eligibility:**

Refer to (9) *Normal Retirement Benefit* and (10) *Early Retirement Benefit*, above. Withdrawal of employee contributions voids rights to benefits.

**Type:**

Life only, level income, or joint and survivor benefit (actuarially reduced).

**Amount:**

Refer to (9) *Normal Retirement Benefit* and (10) *Early Retirement Benefit*, above.

**(12) Indebtedness Owing At Retirement**

If on the date of appointment to retirement, a member has not paid the full indebtedness amount including interest to the retirement fund, the member's retirement benefit will be reduced for life by an amount equal to the actuarial equivalent of the outstanding indebtedness at the time of retirement.

**(13) Re-employment of a Retired Member**

If a retired member is reemployed in a position covered under the system, the retirement benefit will be suspended during the period of reemployment. During such period of reemployment, retirement contributions are mandatory.

A member who returns to PERS employment after retiring under the Retirement Incentive Program (RIP) will:

(a) forfeit the three years of incentive credits that were granted; and

(b) be indebted to the system in an amount equal to 110% of the benefits that were paid because of the member's participation in the RIP, including health insurance costs. The indebtedness is reduced by the amount that the member paid to participate.

## (14) Disability Benefit

### Occupational Disability:

Eligibility:

No age or service requirements.

Type:

Monthly benefit payable until death, recovery, or normal retirement.

Amount:

40% of gross monthly compensation (66-2/3% for police/fire members who participated before July 1, 1976, offset by any workers compensation) at date of disability. When the disabled member becomes eligible for normal retirement, the occupational disability benefit will terminate and the member will be appointed to normal retirement. The normal retirement benefit will be computed as if the member had been employed and had earned PERS credit during the period of occupational disability.

### Non-Occupational Disability:

Eligibility:

Five or more years of credited service.

Type:

Monthly benefit payable until death, recovery, or normal retirement.

Amount:

Refer to (9) *Normal Retirement Benefits* on page 21. When the disabled member becomes eligible for normal retirement, the nonoccupational disability benefit will terminate. The period of time on nonoccupational disability is not included in the normal retirement benefit calculation.

## (15) Death Benefit Before Retirement

### Occupational Death:

No age or service requirements.

Benefit:

40% (66-2/3% for police/fire members who participated before July 1, 1976) of gross monthly compensation at date of death or disability, if earlier, may be paid to the spouse or if there is no spouse, to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's salary on the date of disability or death and credited service, including the period from the date of disability or death to the normal retirement date.

**Non-Occupational Death:**

With less than one year of credited service, the member's contribution account balance, including mandatory and voluntary contributions, indebtedness payments, and interest earned, will be paid to the designated beneficiary. With more than one, but less than five years of credited service, the beneficiary will also receive $1,000 plus $100 for each year of PERS service.

When the member is vested, the surviving spouse may elect to receive the benefits described above or a 50% joint and survivor option based on the member's average monthly compensation and credited service at the time of death.

**(16) Death Benefits After Retirement**

If a member had received retirement benefits prior to his or her death, the designated beneficiary will receive the member's contribution account balance, minus any benefits already paid. However, if the member elected one of the joint and survivor options (50%, 66-2/3% or 75%) at retirement, an eligible spouse would receive a continuing monthly benefit for the rest of his or her life.

**(17) Post-Retirement Pension Adjustment**

A post-retirement pension adjustment will be issued to an eligible benefit recipient each year if the consumer price index (CPI) increases during the prior calendar year. The adjustment to the benefit, excluding the cost-of-living allowance, will be:

(a) 75% of the CPI increase (not to exceed 9%) for recipients who are at least age 65 or on PERS disability; or

(b) 50% of the CPI increase (not to exceed 6%) for recipients who are at least age 60 but under 65, and for recipients who have been receiving benefits for at least five years who are under age 60.

(Ad hoc PRPA's of up to 4% may be issued to retirees who were first hired before July 1, 1986 if the CPI has increased and the financial condition of the fund will permit an increase).

**(18) Cost-of-Living Allowance**

Starting at age 65, a retired member who remains in Alaska is eligible for a cost-of-living allowance (COLA) equal to 10% of the base retirement benefit or $50 per month, whichever is greater. Members who were first hired before July 1, 1986 or who are receiving disability benefits are eligible for COLA, regardless of age.

**(19) Voluntary Contributions**

An employee can voluntarily contribute up to 5% of his or her salary. Voluntary contributions are recorded in a separate account and are payable to the:

(a) member in a lump sum after termination of employment; or

(b) member's beneficiary if the member dies; or

(c) member when the member retires in a lump sum, life annuity, or payments over a designated period of time.

# PARTICIPANT CENSUS INFORMATION - TOTAL PERS AS OF JUNE 30

| **Active Members** | | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| (1) | Number | 27,643 | 26,762 | 26,676 | 28,044 | 29,086 |
| (2) | Average Age | 39.21 | 39.53 | 39.67 | 40.17 | 40.37 |
| (3) | Average Credited Service | 5.96 | 6.32 | 6.45 | 6.66 | 6.82 |
| (4) | Average Annual Salary | $ 32,200 | $ 33,305 | $ 34,052 | $ 32,550 | $ 32,733 |
| **Retirees and Beneficiaries** | | | | | | |
| (1) | Number | 4,657 | 5,651 | 6,702 | 6,967 | 7,365 |
| (2) | Average Age | 64.05 | 60.39 | 62.82 | 63.28 | 63.62 |
| (3) | Average Monthly Benefit: | | | | | |
| | Base | $ 674 | $ 753 | $ 791 | $ 795 | $ 797 |
| | C.O.L.A. | 55 | 62 | 64 | 64 | 61 |
| | P.R.P.A. | 110 | 110 | 90 | 98 | 110 |
| | TOTAL | 839 | 925 | 945 | 957 | 968 |
| **Vested Terminations** | | | | | | |
| (1) | Number | 1,766 | 1,921 | 1,898 | 2,314 | 2,745 |
| (2) | Average Age | 45.50 | 45.33 | 42.77 | 42.97 | 42.96 |
| (3) | Average Monthly Benefit | $ 419 | $ 425 | $ 504 | $ 519 | $ 536 |
| **Non-Vested Terminations With Account Balances** | | | | | | |
| (1) | Number | 8,155 | 3,965 | 3,101 | 3,365 | 3,695 |
| (2) | Average Account Balance | $ 544 | $ 1,114 | $ 2,100 | $ 1,891 | $ 2,045 |

## ADDITIONAL INFORMATION
## ACTIVE MEMBERS BY TYPE OF STATUS AS OF JUNE 30

| | | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| **Active Police & Fire** | | | | | | |
| (1) | Number | 2,371 | 2,319 | 2,327 | 2,414 | 2,419 |
| (2) | Average Age | 37.54 | 37.86 | 38.35 | 39.31 | 39.70 |
| (3) | Average Credited Service | 7.88 | 8.05 | 8.16 | 8.60 | 9.05 |
| (4) | Average Annual Salary | $ 42,825 | $ 43,484 | $ 43,947 | $ 43,082 | $ 43,462 |
| (5) | Number Vested | 1,359 | 1,433 | 1,505 | 1,598 | 1,683 |
| (6) | Percent Who Are Vested | 57.3% | 61.8% | 64.7% | 66.2% | 69.6% |
| **Active "Other" Members** | | | | | | |
| (1) | Number | 25,272 | 24,443 | 24,349 | 25,630 | 26,667 |
| (2) | Average Age | 39.37 | 39.69 | 39.80 | 40.25 | 40.43 |
| (3) | Average Credited Service | 5.78 | 6.16 | 6.29 | 6.48 | 6.62 |
| (4) | Average Annual Salary | $ 31,203 | $ 32,339 | $ 33,106 | $ 31,558 | $ 31,760 |
| (5) | Number Vested | 10,964 | 11,664 | 12,191 | 13,345 | 14,109 |
| (6) | Percent Who Are Vested | 43.4% | 47.7% | 50.1% | 52.1% | 52.9% |

# STATISTICS ON ALL RETIREES AS OF JUNE 30, 1990

| Service Retirement | | Police & Fire | "Other" |
|---|---|---|---|
| (1) | Number, June 30, 1989 | 439 | 5,906 |
| (2) | Net Change During FY90 | 35 | 305 |
| (3) | Number, June 30, 1990 | 474 | 6,211 |
| (4) | Average Age At Retirement | 50.90 | 58.09 |
| (5) | Average Age Now | 57.04 | 64.90 |
| (6) | Average Monthly Benefit | $ 2,053.41 | $ 904.55 |
| **Surviving Spouse's Benefits** | | | |
| (1) | Number, June 30, 1989 | 18 | 395 |
| (2) | Net Change During FY90 | 1 | 38 |
| (3) | Number, June 30, 1990 | 19 | 433 |
| (4) | Average Age At Retirement | 47.19 | 52.64 |
| (5) | Average Age Now | 55.22 | 61.35 |
| (6) | Average Monthly Benefit | $ 881.58 | $ 545.34 |
| **Survivor's Benefits** | | | |
| (1) | Number, June 30, 1989 | 14 | 23 |
| (2) | Net Change During FY90 | 0 | 0 |
| (3) | Number, June 30, 1990 | 14 | 23 |
| (4) | Average Age At Retirement | 27.93 | 44.21 |
| (5) | Average Age Now | 40.62 | 56.34 |
| (6) | Average Monthly Benefit | $ 1,721.51 | $ 1,105.26 |
| **Disabilities** | | | |
| (1) | Number, June 30, 1989 | 41 | 131 |
| (2) | Net Change During FY90 | (1) | 20 |
| (3) | Number, June 30, 1990 | 40 | 151 |
| (4) | Average Age At Retirement | 38.54 | 43.24 |
| (5) | Average Age Now | 43.79 | 47.46 |
| (6) | Average Monthly Benefit | $ 1,911.37 | $ 1,075.03 |
| **Total Number of Retirees** | | **547** | **6,818** |

# ACTUARIAL BASIS

## Valuation of Liabilities

**A. Actuarial Method -** Projected Unit Credit. Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An **Accrued Liability** is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The **Unfunded Liability** at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the **Past Service Cost.**

The **Normal Cost** is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

**B. Actuarial Assumptions -**

| | | |
|---|---|---|
| 1. | Interest | 9% per year, compounded annually, net of expenses. |
| 2. | Salary Scale | 6.5% per year for the first five years of employment and 5.5% per year thereafter. |
| 3. | Health Cost Inflation | 9% per year. |
| 4. | Mortality | 1984 Unisex Pension Mortality Table set back 1-1/2 years. Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others". |
| 5. | Turnover | Based upon the 1981-85 actual total turnover experience. (See Table 1). |

| | | |
|---|---|---|
| 6. | Disability | Incidence rates in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others". |
| 7. | Retirement Age | Retirement rates based on actual experience in accordance with Table 3. |
| 8. | Spouse's Age | Wives are assumed to be four years younger than husbands. |
| 9. | Dependent Children | Benefits to dependent children have been valued assuming members who are not single have one dependent child. |
| 10. | Contribution Refunds | 100% of those terminating after age 35 with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded. |
| 11. | C.O.L.A. | Of those benefit recipients who are eligible for the C.O.L.A., 69% are assumed to remain in Alaska and receive the C.O.L.A. |
| 12. | Expenses | Expenses are covered in the interest assumption. |

**Valuation of Assets**

Based upon the five-year average ratio between actuarial and book values of the System's assets. The actuarial value of assets equals the market value, except that fixed income investments are carried at book value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by Coopers & Lybrand. Valuation assets cannot be outside the range of book and actuarial values.

**Valuation of Medical Benefits**

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) were assumed such that the total rate for all retirees equals the present premium rate. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY91 and FY92, the pre-65 monthly premium is $318.94 and the post-65 premium is $121.50, based on a total blended premium of $243.98. These rates and the pre-65/post-65 split were provided by Deloitte & Touche.

# TABLE 1

## ALASKA PERS
## TOTAL TURNOVER ASSUMPTIONS

**Select Rates of Turnover During the First 10 Years of Employment**

**Ultimate Rates of Turnover After the First 10 Years of Employment**

**Police and Fire:**

| Year of Employment | Age at Hire 20-29 | Age at Hire 30-39 | Age at Hire 40+ | Age | Rate |
|---|---|---|---|---|---|
| 1 | .39 | .28 | .22 | 20-29 | .03 |
| 2 | .18 | .19 | .16 | 30-45 | .02 |
| 3 | .12 | .14 | .13 | 46+ | .01 |
| 4 | .11 | .13 | .12 | | |
| 5 | .07 | .09 | .11 | | |
| 6 | .06 | .09 | .08 | | |
| 7 | .05 | .09 | .08 | | |
| 8 | .05 | .06 | .08 | | |
| 9 | .04 | .04 | .04 | | |
| 10 | .04 | .03 | .03 | | |

**Others:**

| Year of Employment | Age at Hire 20-29 | Age at Hire 30-39 | Age at Hire 40+ | Age | Rate |
|---|---|---|---|---|---|
| 1 | .34 | .26 | .20 | 20-45 | .065 |
| 2 | .26 | .21 | .15 | 46+ | .05 |
| 3 | .21 | .17 | .13 | | |
| 4 | .18 | .14 | .10 | | |
| 5 | .16 | .13 | .09 | | |
| 6 | .15 | .13 | .09 | | |
| 7 | .12 | .10 | .09 | | |
| 8 | .12 | .09 | .09 | | |
| 9 | .12 | .08 | .08 | | |
| 10 | .09 | .07 | .06 | | |

## TABLE 2
## ALASKA PERS DISABILITY RATES
## ANNUAL RATES PER 1,000 EMPLOYEES

| Age | Police & Fire Rate | "Other" Member Rate |
|---|---|---|
| 20 | .88 | .28 |
| 21 | .89 | .28 |
| 22 | .90 | .29 |
| 23 | .91 | .29 |
| 24 | .93 | .30 |
| 25 | .94 | .30 |
| 26 | .95 | .30 |
| 27 | .98 | .31 |
| 28 | 1.00 | .32 |
| 29 | 1.03 | .33 |
| 30 | 1.05 | .34 |
| 31 | 1.08 | .34 |
| 32 | 1.10 | .35 |
| 33 | 1.13 | .36 |
| 34 | 1.16 | .37 |
| 35 | 1.20 | .38 |
| 36 | 1.24 | .40 |
| 37 | 1.29 | .41 |
| 38 | 1.34 | .43 |
| 39 | 1.39 | .44 |
| 40 | 1.44 | .46 |
| 41 | 1.50 | .48 |
| 42 | 1.59 | .51 |
| 43 | 1.70 | .54 |
| 44 | 1.85 | .59 |
| 45 | 2.03 | .65 |
| 46 | 2.20 | .70 |
| 47 | 2.39 | .76 |
| 48 | 2.59 | .83 |
| 49 | 2.79 | .89 |
| 50 | 3.00 | .96 |
| 51 | 3.25 | 1.04 |
| 52 | 3.56 | 1.14 |
| 53 | 3.98 | 1.27 |
| 54 | 4.44 | 1.42 |
| 55 | 5.00 | 1.60 |
| 56 | 5.74 | 1.84 |
| 57 | 6.68 | 2.14 |
| 58 | 7.63 | 2.44 |
| 59 | 9.00 | 2.88 |
| 60 | 10.54 | 3.37 |
| 61 | 12.19 | 3.90 |
| 62 | 14.13 | 4.52 |
| 63 | 16.31 | 5.22 |
| 64 | 18.63 | 5.96 |

## TABLE 3

## ALASKA PERS RETIREMENT RATES

| Age | Police & Fire Rate | "Other" Member Rate |
|---|---|---|
| 50 | .17 | .06 |
| 51 | .11 | .04 |
| 52 | .11 | .04 |
| 53 | .12 | .04 |
| 54 | .12 | .05 |
| 55 | .30 | .17 |
| 56 | .21 | .15 |
| 57 | .21 | .12 |
| 58 | .12 | .13 |
| 59 | .12 | .16 |
| 60 | .21 | .26 |
| 61 | .21 | .25 |
| 62 | .25 | .43 |
| 63 | .33 | .63 |
| 64 & Up | 1.00 | 1.00 |

For ages less than 50, employees are assumed to retire two years after the earliest age they are eligible to retire.

# INVESTMENT SECTION

# ORGANIZATION

State of Alaska
Department of Revenue
P.O. Box 110400, Juneau, Alaska 99811
(907) 465-2300

## OUTSIDE MANAGERS

**Domestic Equities**

(Fred) Alger Management
*New York, New York*
IDS Equity Advisors
*Minneapolis, Minnesota*
Invesco Capital Management, Inc.
*Atlanta, Georgia*
Lehman Ark Management
*New York, New York*
Miller, Anderson & Sherrerd
*West Conshohocken, Pennsylvania*
State Street Bank & Trust Co.
*N. Quincy, Massachusetts*
United Capital Management
*Denver, Colorado*

**Equity Real Estate Managers/Advisors**

Aetna Capital Management
*Hartford, Connecticut*
Equitable Real Estate Investment Management, Inc.
*Irvine, California*
John Hancock Properties, Inc.
*Boston, Massachusetts*
JMB Institutional Realty Corporation
*Chicago, Illinois*
Karsten Realty Advisors
*Los Angeles, California*
J.P. Morgan Investment Management, Inc.
*New York, New York*
Sentinel Real Estate Corporation
*Bellevue, Washington*

**International Equities**

Citibank Investment Management
*London*
J.P. Morgan Investment
*London*

## INVESTMENT OPERATIONS ADVISORY COMMITTEE

John W. English,Chairman
*Ford Foundation, Vice Pres. & Chief Inv. Off.*
Mark T. Finn,
*Delta Financial, Inc., President*

*(A third position is currently unfilled)*

## CONSULTANTS

**Performance Measurement**
SEI Funds Evaluation Services
*San Francisco, California*

**Real Estate Consultants**
Institutional Property Consultants, Inc.
*Atlanta, Georgia*
*San Diego, California*

**Domestic Equity Evaluation**
SEI Funds Evaluation Services
*San Francisco, California*

**International Equity Evaluation**
The WM Company
*Edinburgh, Scotland*

### INDEPENDENT AUDITORS

KPMG Peat Marwick
*Anchorage, Alaska*

### GLOBAL MASTER CUSTODIAN

State Street Bank & Trust Co.
*N. Quincy, Massachusetts*

### *STAFF*

**Commissioner**
Darrel J. Rexwinkel, Acting

**Deputy Commissioner**
Darrel J. Rexwinkel

**Chief Investment Officer**
Steven R. Stein

**Investment Officer**
Michael S. Cheung, Fixed Income
Martin L. Lentz, Real Estate

**Cash Management**
Vernon B. Voss

**Comptroller**
Brian C. Andrews

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

**DEPARTMENT OF REVENUE**

OFFICE OF THE COMMISSIONER

P.O. BOX S
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300
TELEFAX: (907) 465-2389

December 11, 1991

To the Beneficiaries and Participating Employers
Public Employees' Retirement Systems

The State of Alaska, by itself and on behalf of participating employers, promises each employee participating in the Public Employees Retirement System (PERS) a pension benefit based on years of service to its citizens. The employees deserve a well funded system to insure that money will be available to pay their benefits when due.

Funding goals and employer contribution rates are determined by the PERS retirement board (Board). Employee rates are fixed by statute. The employer rate set by the Board with advice from a consulting actuary is the rate needed to achieve funding goals. The average employer rate is now 14.2% which is more than twice the employee rate. The combined rates result in substantial contributions to the Public Employees Retirement System Trust Fund (Fund). Even so, over the past few years investment earnings have been significantly more than contributions. Without these earnings, the employer rate would be substantially higher. The result would be less money for benefits or other important public needs.

My job and that of Treasury Division is to make sure that moneys in the Fund are properly invested to maximize earnings consistent with preservation of principal. As fiduciaries we must manage the Fund in the best financial interest of the beneficiaries (employees and retirees). Successful investment performance helps provide a well funded plan to ensure benefit payments to retirees. Successful performance also reduces the burden on the citizens of the State.

The investments of the Fund continue to increase as a result of positive returns. For the five years ended June 30, 1991, the Fund earned an average of 9.0%. This means the Fund achieved the 9.0% rate of return adopted by the PERS board for actuarial funding purposes. This is important as it maintains a high funding ratio. A high funding ratio ensures the Funds ability to make benefit payments when due.

According to a survey by the National Conference of State Legislatures published in 1990, the average funding ratio for state retirement systems with assets between $1 billion and $5 billion was 72.5%. The Alaska PERS far exceeded this average with a funding ratio of 97.2% at June 30, 1990. My goal is to manage the Funds investments so that investment earnings make a positive contribution toward achieving a 100% funded status.

To help insure the highest level of future investment earnings consistent with appropriate risk levels, important fund management enhancements are being implemented. A brief description of each follows.

- An Investment Operations Advisory Committee was established in late 1990. This committee is very important to me and the beneficiaries. The members have been asked to be very critical in their review and frank in their observations. The committee is comprised of three national experts in large pension trust fund investments. They assemble on a quarterly basis to review Treasury's pension trust fund investment operations. Based on this review they offer advice and make recommendations to me and my staff.

- A global custodian has been retained to maintain custody of all assets. This new relationship is very important to the orderly conduct of our investment operations. It will greatly assist with performance measurement and other investment analytics.

- A securities lending program was implemented in August 1991. This program has minimal risk and should return in excess of $1 million in additional earnings to the trust funds.

- Treasury Division staff has been directed to meet with Permanent Fund Corporation staff and participate in their meetings where appropriate to exchange information. The Permanent Fund Corporation and the State of Alaska, Treasury Division, manage two of the larger public funds in the United States. We have every reason to work together in a spirit of friendly competition.

- A seven-member investment council was being established by regulation. This council was to review and approve investment policies, strategy, and management operations. The council would have received advice from Treasury staff, the Investment Operations Advisory Committee, and other professional investment advisors and consultants. The council would act in a manner similar to an investment board. Adoption of investment council regulations was postponed to accommodate a legislative alternative. The alternative is to create, by statute, an eight member fiduciary investment board. The investment board will manage investments of the pension trust fund for the best financial interest of the beneficiaries on a shared fiduciary basis. Beneficiaries will have equal representation on the board. Department of Revenue, Treasury Division, will be staff to the board.

- A proposal process is being finalized to select a firm to provide investment advisory services. The primary purpose is to select a firm to assist with design of investment policies and objectives and to perform asset allocation modeling. Estimates have placed the proportion of investment performance attributable to asset allocation as high as 90%. State statutes recognize that this is a very important pension fund investment function. By statute, the commissioner of revenue, in managing retirement system trust funds, must consider the status of the funds investments and the systems liabilities on both a current and probable future basis.

My responsibility and goal to manage the Fund in the best interest of the beneficiaries. Programs in place and enhancements described above will help accomplish this goal. The result will be twofold. First, beneficiaries will have a well funded plan and can be secure in their retirement pension benefits. Second, benefits will be provided at the least possible cost to the citizens. Finally, investment earnings will be maximized consistent with preservation of principle in a controlled risk environment.

Sincerely,

Darrel J. Rexwinkel
Acting Commissioner

### Creation and Purpose

The Public Employees' Retirement System Trust Fund (Fund) is established by Alaska Statute 39.35.020(6). The Fund holds the assets of the Public Employees' Retirement System (PERS). These assets are comprised of investments of various kinds, predominantly stocks, bonds, and real estate. The Fund was created to pay retirement benefits to employees participating in the retirement plan administered under PERS. The retirement plan is a defined-benefit pension plan in which benefit levels for each employee are determined by length of employment and highest average salary. The plan is a joint-contributory plan in which both the employee and the employer make continuing contributions, calculated as a percentage of current salary. Employee contribution percentages are fixed by statute. Employer contributions are determined annually by the PERS board based on evaluations of the Fund by a consulting actuary. The plan is considered to be perpetual because it applies to future as well as current employees and because the employers (state and municipal governments or political subdivisions) are perpetual in nature.

Participating employers are bound by the Alaska Constitution to pay the plan's benefits. Although benefits could be paid on a pay-as-you-go basis, the existence of a fund serves two purposes. For the employer, it distributes contributions over an employees' years of service. For the employee, it provides a form of insurance that employers will meet their obligations.

## Fiscal 1991 Annual Financial Results

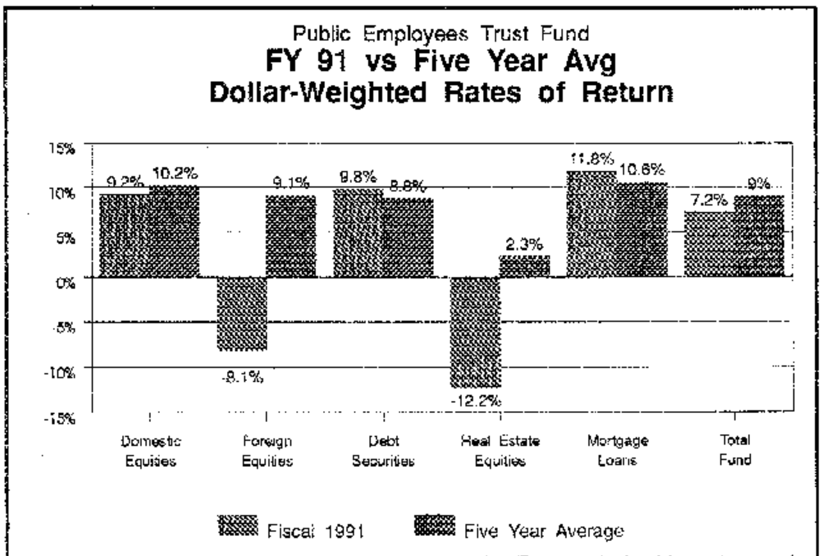
### Market Environment

The twelve month period ending June 30, 1991 was a hectic one economically, politically and in the investment markets. The dominant issues were the invasion of Kuwait, subsequent war and recessions in several major countries.

At the end of fiscal 1991 (June 30, 1991), the U.S. economy began to show signs of a gradual recovery as it responded to easier monetary policy previously undertaken by the Federal Reserve Bank. Reviving activity was reflected in a growing array of economic reports. However, this recovery promises to be different from previous economic cycles. Significantly, inventory rebuilding and bank credit support have been less evident. The timing, magnitude, and nature of this economic recovery are all critical variables in the outlook for inflation.

It was a good year for fixed-income investments such as bonds where prices rose with declining interest rates. The Salomon Brothers Broad Index produced a return of 10.8%. Bond market participants spent the first half of FY 91 assessing the arrival of the recovery, and then turned their attention to gauging its strength. The yield curve also steepened during the year. At year end, the yield spread between two year treasury and thirty year treasury bonds had increased by half to 150 basis points. Long rates increased due to supply and inflation concerns while short rates benefitted from Fed easing and the unlikely prospect of Fed tightening.

Domestic equities closed out the year on a negative note with most indices off between 4% and 6% during June. That consolidation was not unusual in the context of stocks which gained more than 25% between November 1990 and March 1991. For the fiscal year, the Standard & Poor's 500 Index posted a total return of 7.4%. Real estate equity returns (MCREIF index) were -1.2%, and international equity market returns were also negative, with the EAFE index at -11.5%.

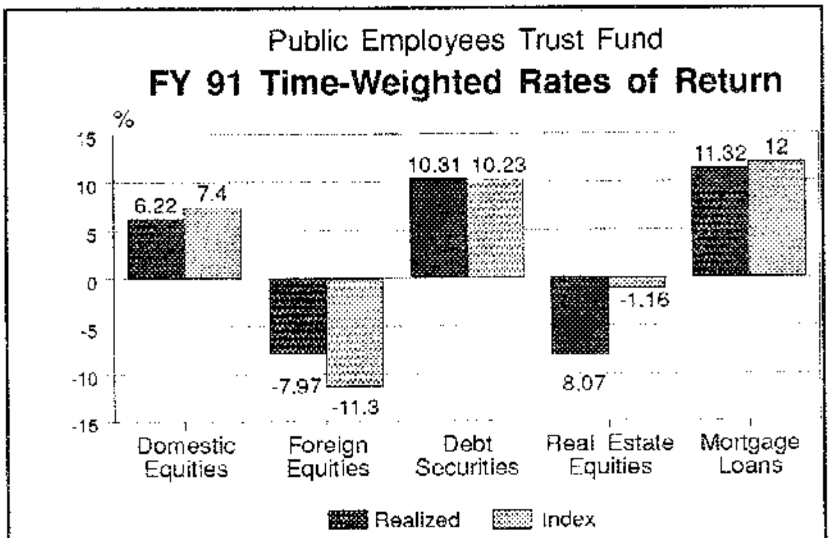


Dollar-weighted represents economic returns to the Fund and should not be used for performance measurements.

## Total Fund Returns

The Fund earned $202.9 million in realized net income in fiscal 1991. Realized net income is cash actually received by the Fund, such as dividends paid on stocks, interest paid on bonds, fees and other income earned on equity real estate, and realized capital gains. For the year, realized capital gains were $22.3 million.

Total return measures realized net income plus the net change in unrealized gains and losses. On a total return basis, the Fund earned $203.1 million in fiscal 1991 as compared to $248.1 million in fiscal 1990. This amount includes both the realized income of $202.9 million and a $.2 million net increase in unrealized gains. Although the net change in unrealized gains from July 1, 1990 to June 30, 1991 was modest, monthly changes during that period were often quite dramatic and indicated a high degree of volatility.



Indices: S&P 500, EAFE, Lehman Gov/Corp, NCREIF, Lehman GNMA

Source - SEI Corporation
Performance Measurement Consultants

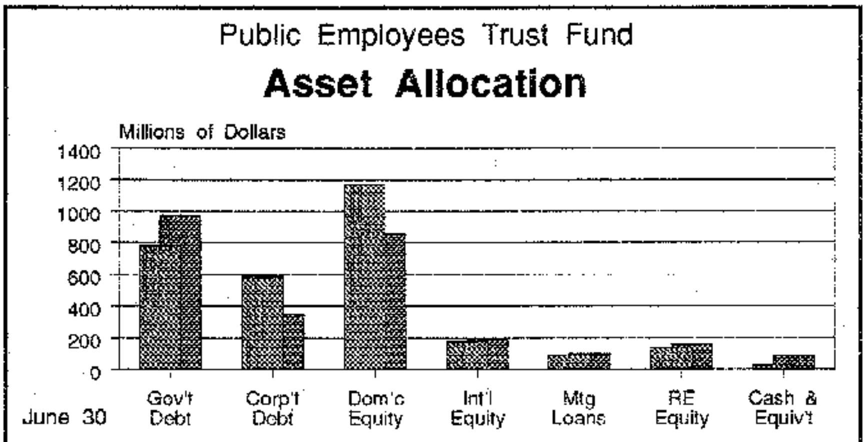
The total dollar-weighted rate of return for the Fund for fiscal 1991 was 7.2%. Of the Fund's major security types, real estate mortgages contributed the highest economic rate of return, followed by fixed income securities, and then the domestic equities. International equities and real estate equities had negative economic rates of return. The five year annual average ending June 30, 1991 was 9.0% which equals the actuarial assumption.

A dollar-weighted return represents an economic return to the Fund and should not be used for performance measurement as it is not time weighted. Dollar-weighted returns reflect the benefits or detriments of cash flows in a fund. They show the net economic gain or loss. Time-weighted rates are calculated for short periods of time and then linked together. These returns are not influenced by the timing of cash flows to the manager. Since the manager does not decide the timing of cash flows into the Fund, time-weighted rates are useful for manager evaluation. Market indices are calculated on a time-weighted basis.

# ASSET ALLOCATION

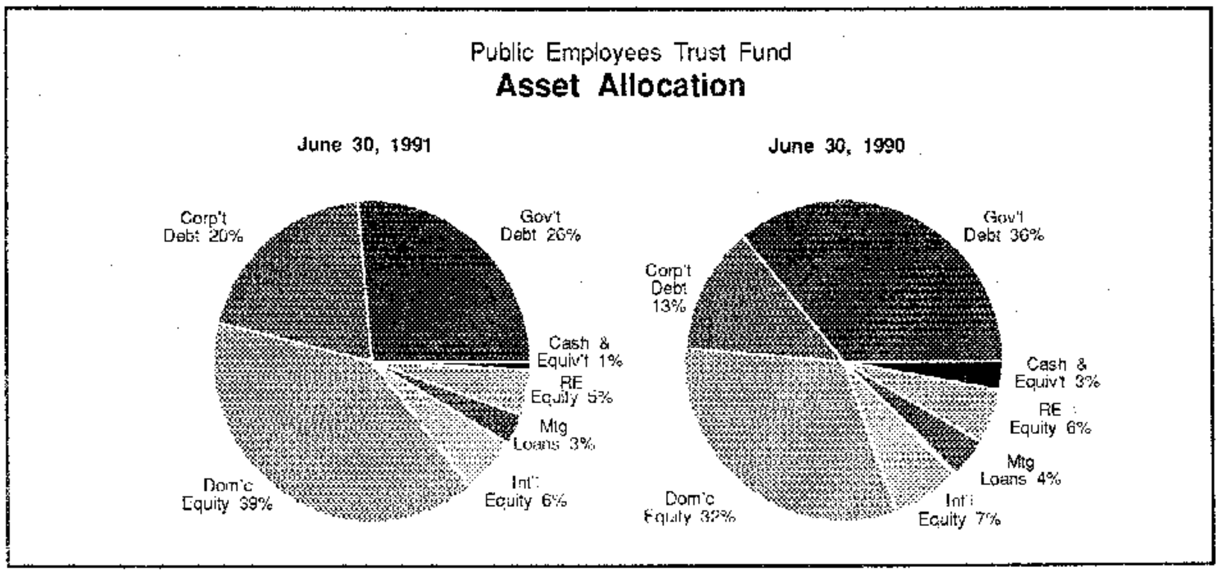
## Marketable Debt Securities

The Fund is comprised of 46% marketable debt securities which are managed in-house. The Fund's marketable debt securities portfolio began the year heavily weighted to U.S. government bonds. These were the best performing sectors of the debt market in the first six months of the year. During the year funds were moved from governments to corporates, benefitting the portfolio since corporates outperformed governments in the last half of the year ending June 30. During fiscal 1991, the Fund was a net buyer of $47.3 million of marketable debt securities.




| June 30 | Gov't Debt | Corp't Debt | Dom'c Equity | Int'l Equity | Mtg Loans | RE Equity | Cash & Equiv't |
|---|---|---|---|---|---|---|---|
| 1991 | 779.5 | 590.2 | 1166 | 176.8 | 93.6 | 134.5 | 26.1 |
| 1990 | 969.5 | 346.2 | 854.1 | 198.3 | 100.4 | 154.2 | 82.8 |

The portfolio holds bonds with a very high quality rating. Nearly half of the Fund consists of U.S. Treasury bonds, notes, and high-grade corporate debt securities. These fixed-income investments earn interest which represents the bulk of the cash required each year for payments to beneficiaries.



Interest earned on marketable debt securities in fiscal 1991 totaled $121.2 million. Marketable debt ended the year with $3.2 million in realized gains. This portfolio earned a total return in fiscal 1991 of 9.8%.

At the end of the fiscal year, the weighted average life of the marketable fixed income securities was 11 years, 1 month, compared with 11 years, 5 months, a year earlier. The maturities of the Fund's marketable debt portfolio is longer than many corporate or state portfolios. During a year when interest rates decline, long maturities have a positive effect on returns.

**Domestic Equities**

The first six months were spent anticipating a recession in the domestic equity market, while the second half was spent anticipating a recovery. There were significant changes in the types of stocks that did well during the year.

The Fund made additional investments in a domestic equity pool in fiscal 1991, adding a net $215.9 million to the equity holdings. Management of the domestic equity pool is distributed among six active managers and one index manager. Under their management the market value of the Fund's stock holdings increased by $95.9 million to total $1,166.0 million at year-end. Domestic equity holdings represent 39% of the Fund. On a dollar-weighted basis, the Fund's domestic equity holdings produced a return of 9.2% for fiscal 1991.

**International Equities**

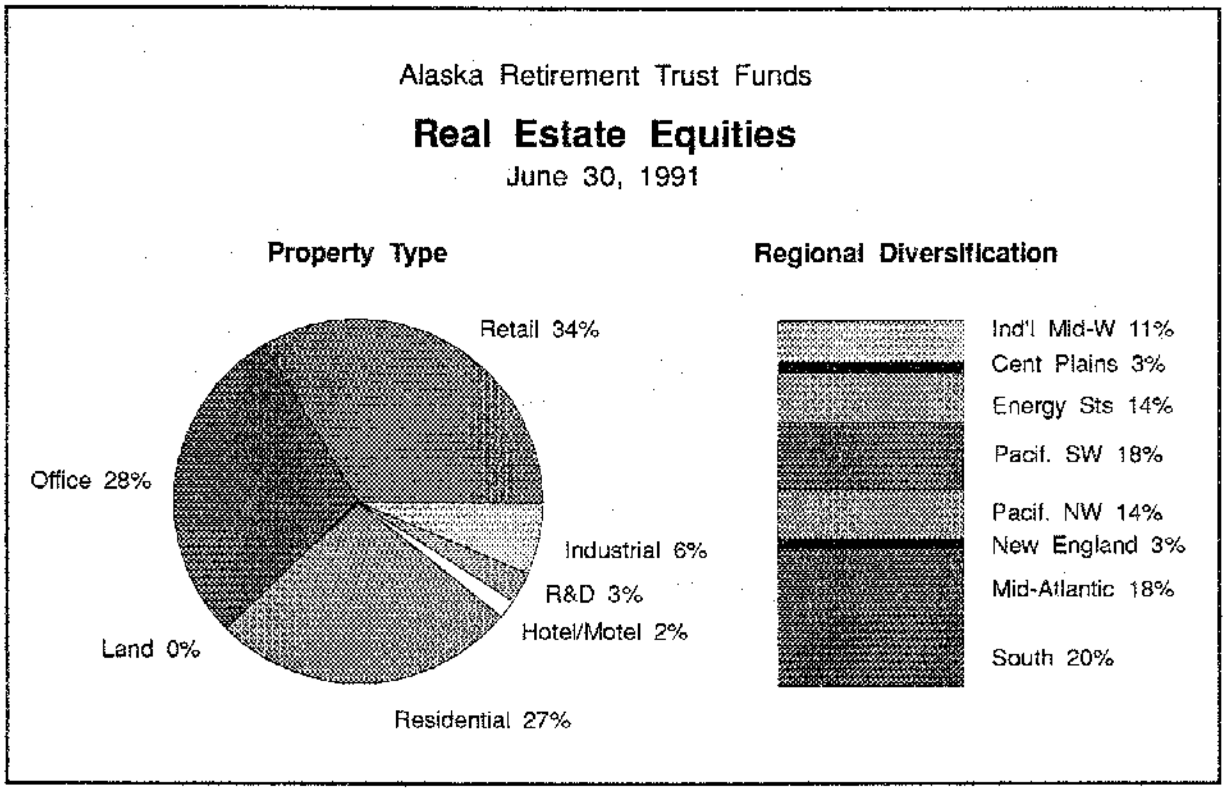
International equities comprise 6% of the Fund. There were no contributions made by the Fund to the international equity portfolio for fiscal 1991. The international equity portfolio is managed by two active managers. The market value of international equities decreased by $21.5 million, to total $176.8 million at year-end. On a dollar-weighted basis the international equity portfolio had a return of -8.1%.

The strength of the U.S. dollar after the Middle East war was a significant factor reducing returns from investments outside the U.S. Additionally, the impact of the war and recession in several countries reduced equity returns. For the year, investments cited in Japan and Germany had substantial negative returns.

**Real Estate Equities**

The real estate equity portfolio is a diversified property portfolio of commingled funds. The market value of real estate equities decreased by $19.7 million to total $134.5 million at fiscal year-end. The real estate investments comprise 5% of the Fund, returning -12.2% on a dollar-weighted basis.

These institutional-grade funds are managed by seven professional real estate investment firms. The retirement trust funds invested in these portfolios principally in 1980 and 1984. No new investments have taken place since 1987.




The real estate industry is in one of the most difficult periods in decades. In general, real estate markets are suffering from over-building in virtually all market sectors. The good news is that new construction across the country is virtually at a standstill. There is little question that time will be required to absorb excess capacity.

In these difficult and challenging times, focusing on fundamental strengths of real estate investing is important. Attributes that brought pension funds to this asset class in the first place are as valid as ever. Institutional-grade real estate performs competitively with other asset classes, is low in volatility, and responds well to a variety of economic climates. As the economy improves and excess capacity is absorbed, this asset also should improve in overall performance.

The real estate equity portfolio is positioned to realize future returns quicker than the average portfolio. This is because the Fund is heavily weighted in retail and multifamily and under-weighted in office. Office buildings have been depressed and this sector is where the Fund suffered substantial losses in 1991.

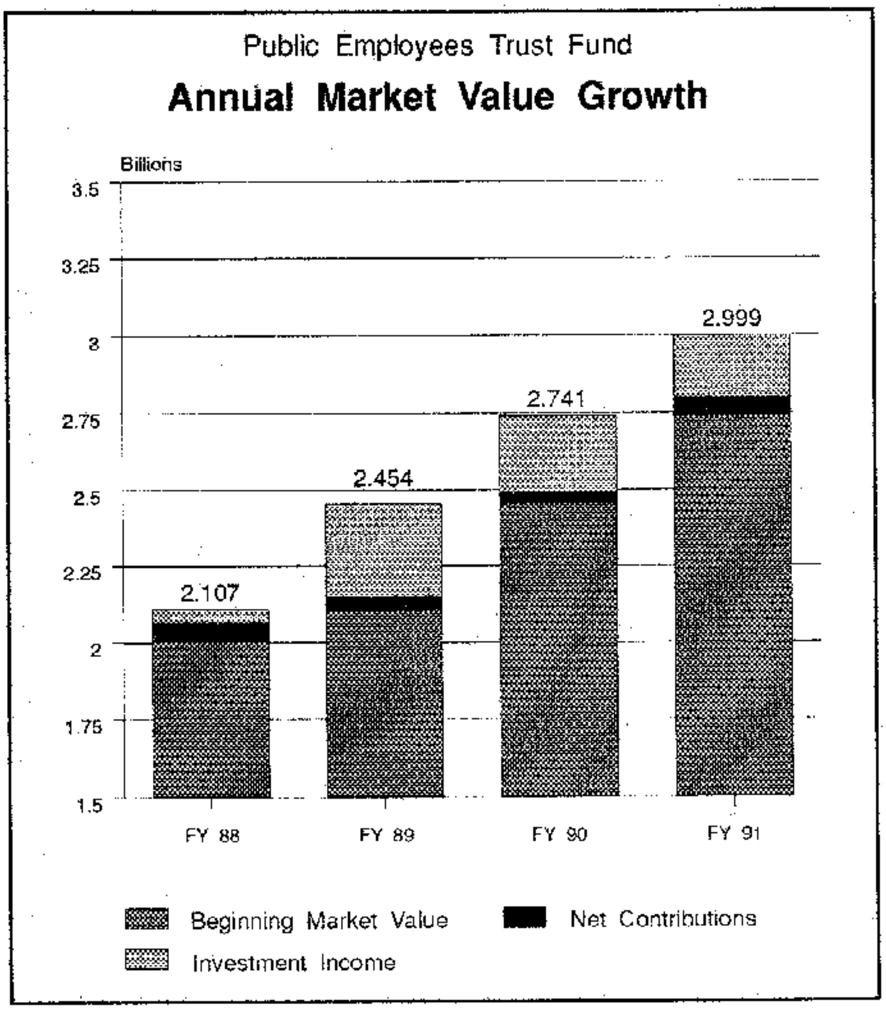
Today's economy offers limited real estate investment opportunities. The Fund may participate in these opportunities on a selective basis. Prior to 1988, the Fund was limited to commingled funds where the manager has sole control over investments. The Fund may now invest in real estate on a direct basis.

**Real Estate Mortgages**

The Fund continued its investment policy of not making direct residential and commercial real estate loans for fiscal 1991 due to the low liquidity, high risk and administrative expense of this type of investment. The market value of real estate loans totaled $93.6 million at year-end representing 3% of the total Fund. This portion of the Fund's portfolio returned 11.8% on a dollar-weighted basis for the year ending June 30, 1991.

## CONCLUSION

The assets of the Fund came into being and have grown because employers and employees have paid more into the Fund in the form of contributions than has been paid out in benefits. Investment returns have significantly increased the Fund's assets. Contributions currently exceed benefits by design, in order to make benefit payments that can reasonably be expected in the future. These projections of future benefit payments and investment earnings are main factors used by the actuary in determining employer contribution rates. Other important factors are the amount of assets in the Fund and expected cost of living increases. With the programs outlined in the Commissioner's message, future investment returns should exceed expectations.



# INDEPENDENT AUDITORS' REPORT

State of Alaska
Department of Revenue
Division of Treasury:

We have audited the accompanying balance sheets of the Public Employees' Retirement Trust Fund (Fund) as of June 30, 1991 and 1990, and the related statements of investment income and changes in fund balance restricted for beneficiaries, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, the financial statements of the Public Employees' Retirement Trust Fund represent only the investment portfolio of the State of Alaska Public Employees' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Trust Fund as of June 30, 1991 and 1990, and the results of its investment operations and changes in fund balance, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

September 6, 1991

*KPMG* Peat Marwick
Certified Public Accountants
601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

KPMG Peat Marwick

Member Firm of
Klynveld Peat Marwick Goerdeler

# BALANCE SHEETS

| | 1991 | - June 30 - (000's omitted) | 1990 |
|---|---|---|---|
| **Assets** | | | |
| Investments, at market: | | | |
| Marketable securities: | | | |
| U.S. government debt | $779,480 | | $969,468 |
| Corporate bonds | 590,191 | | 346,189 |
| Domestic equity pool | 1,165,967 | | 854,128 |
| International equities | 176,812 | | 198,346 |
| Total marketable securities | 2,712,450 | | 2,368,131 |
| Mortgage loans | 98,495 | | 106,546 |
| Allowance for loan losses | (4,851) | | (6,191) |
| Net mortgage loans | 93,644 | | 100,355 |
| Real estate equities | 134,468 | | 154,163 |
| Total investments | 2,940,562 | | 2,622,649 |
| Receivables: | | | |
| Interest and dividends | 29,942 | | 29,937 |
| Due from general investment fund | 780 | | 5,793 |
| Total receivables | 30,722 | | 35,730 |
| Cash and cash equivalents | 28,148 | | 82,817 |
| Total assets | $2,999,432 | | $2,741,196 |
| **Fund Balance** | | | |
| Fund balance restricted for beneficiaries | $2,999,432 | | $2,741,196 |

*See accompanying notes to financial statements*

# STATEMENTS OF INVESTMENT INCOME AND CHANGES IN FUND BALANCE RESTRICTED FOR BENEFICIARIES

| | 1991 | Year Ended - June 30 - (000's omitted) | 1990 |
|---|---|---|---|
| Investment Income: | | | |
| Income: | | | |
| Interest: | | | |
| Marketable securities | $121,241 | | $127,987 |
| Mortgage loans | 8,601 | | 9,057 |
| Total interest | 129,842 | | 137,044 |
| Dividends: | | | |
| Domestic equity pool | 35,778 | | 27,686 |
| International equities | 6,032 | | 4,583 |
| Real estate equities | 7,611 | | 8,036 |
| Total dividends | 49,421 | | 40,305 |
| Total income | 179,263 | | 177,349 |
| Reduction of allowance for loan losses | 1,340 | | 192 |
| Net income | 180,603 | | 177,541 |
| Net realized and unrealized gains on investments: | | | |
| Realized: | | | |
| Marketable debt securities | 3,162 | | 1,023 |
| Domestic equity pool | 17,850 | | 42,570 |
| International equities | 1,311 | | 13,012 |
| Net realized gains | 22,323 | | 56,605 |
| Change in unrealized market appreciation | 178 | | 13,939 |
| Net realized and unrealized gains | 22,501 | | 70,544 |
| Total investment income | 203,104 | | 248,085 |
| Beginning fund balance restricted for beneficiaries | 2,741,196 | | 2,453,716 |
| Net contributions | 55,132 | | 39,395 |
| Ending fund balance restricted for beneficiaries | $2,999,432 | | $2,741,196 |

*See accompanying notes to financial statements*

## STATEMENTS OF CASH FLOWS

| | 1991 | 1990 |
|---|---|---|
| | Year Ended - June 30 - (000's omitted) | |
| Investment operations: | | |
| Total investment income | $203,104 | $248,085 |
| Adjustments: | | |
| Net realized gains | (22,323) | (56,605) |
| Change in unrealized market appreciation | (178) | (13,939) |
| Amortization | 2,547 | 2,418 |
| Increase in interest and dividends receivable | (5) | (1,316) |
| Reduction of allowance for loan losses | (1,340) | (191) |
| Net cash provided by investment operations | 181,805 | 178,452 |
| Investing activities: | | |
| Purchase of marketable securities | (871,032) | (802,088) |
| Sales and maturities of marketable securities | 823,735 | 752,023 |
| Aquisition of mortgage loans and real estate equities | (15,895) | (15,622) |
| Net increase in book value of domestic equity pool | (251,720) | (100,345) |
| Mortgage loan principal payments and proceeds from real estate equities | 18,293 | 17,290 |
| Net cash used in investing activities | (296,619) | (148,742) |
| Financing activities - net contributions from benefit system | 60,145 | 33,975 |
| Net increase (decrease) in cash and cash equivalents | (54,669) | 63,685 |
| Cash and cash equivalents at beginning of year | 82,817 | 19,132 |
| Cash and cash equivalents at end of year | $28,148 | $82,817 |

*See accompanying notes to financial statements*

## (1) Accounting Entity

The Public Employees' Retirement System Trust Fund (Fund) represents the investment portfolio of the State of Alaska Public Employees' Retirement System (PERS). PERS is a multiple-employer agent defined benefit, joint contributory system established for the payment of retirement, disability and death benefits to or on behalf of qualified employees of the state or a political subdivision within the state. These financial statements are those of the Fund and not PERS taken as a whole. The Commissioner of Revenue is the fiduciary and has the statutory authority to invest the moneys of the Fund. This authority is delegated to specific investment officers of the Treasury Division.

Alaska Statutes 14.25.180, 39.35.080, and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large trust portfolios. The Treasury Division has contracted the management of certain investment securities to selected external managers. Specifically, the domestic equity pool, international equities and real estate equities are managed by external management companies.

## (2) Summary of Significant Accounting Policies

### Investment Presentation

The market value of marketable securities is determined at the end of each month by the custodial agents. The agents' determination of market values involves, among other things, using pricing services or prices quoted by independent brokers. The market value of the mortgage loans is determined by adjusting purchased yields to the current secondary mortgage market conditions established by the MGIC Investment Corporation.

A mortgage loan loss provision has been provided to allow for potential problem loans. The mortgage loan loss provision has been determined by analyzing various characteristics (i.e., aging) of the portfolio.

The market values of real estate equities are valued by the various companies managing those funds.

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis. In determining gains and losses, the cost of securities sold is determined on a specific identification basis.

Interest income, including amortization of premium and discount, is accrued monthly. Dividend income on domestic equity securities is accrued on ex-dividend date.

Dividend income on international equities is recognized upon notification from the custodian.

### Net Contributions

Net contributions represent contributions from employers and employees, net of benefits paid to PERS participants. Net contributions are recorded on a cash basis according to when contributions are received, and benefits are paid by the State of Alaska, Department of Administration, Division of Retirement and Benefits.

### Administrative and Other Expenses

All expenses, including investment management costs, are charged to appropriations of Fund assets and are therefore not deducted from investment income of the Fund.

### Statement of Cash Flows

For purposes of the statement of cash flows, Treasury Division considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The cash flow statement is presented to reflect the activity resulting in a change in cash and cash equivalents. Total investment income is adjusted for realized gains or losses because gross proceeds are shown under sales and maturities of marketable securities.

## 3) Domestic Equity Pool

The Fund, along with several other State of Alaska funds, has an investment in a domestic equity pool. The majority of the domestic equity pool is comprised of common stock with available cash balances invested in short-term issues. All accrued income and realized gains are allocated monthly to each participating fund on a pro rata ownership basis. Income which is received by the domestic equity pool is distributed monthly in cash to each participating fund, first to accrued income allocated to any withdrawal by a participating fund, and second, in proportion to each fund's ownership of remaining accrued income.

At June 30, 1991 and 1990, the Fund's investment in the domestic equity pool is comprised of:

| | 1991 | 1990 |
|---|---|---|
| Domestic equities, at market | $1,162,408 | $793,529 |
| Interest and dividends receivable | 3,359 | 2,377 |
| Cash and cash equivalents | 200 | 58,222 |
| Total | $1,165,967 | $854,128 |

## (4) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following at June 30, 1991 and 1990:

| | 1991 | 1990 |
|---|---|---|
| Interest-bearing deposits | $ 23 | $ 84 |
| Cash from investment maturities in transit | 1,825 | 64,000 |
| Repurchase agreement | 26,300 | 18,733 |
| Total cash and cash equivalents | $28,148 | $82,817 |

## (5) International Equities

International equities are comprised of the following at June 30, 1991 and 1990:

| | 1991 | 1990 |
|---|---|---|
| International equities, at market | $164,114 | $188,128 |
| Cash and cash equivalents | 12,698 | 10,218 |
| Total international equities | $176,812 | $198,346 |

Included in international equities are forward exchange contracts to buy and sell international currency. Such contracts have no significant effect on the book or market values of the total international equities.

## (6) Real Estate Mortgages

Real estate mortgages are comprised of the following at June 30, 1991 and 1990 (book values presented):

| | 1991 | 1990 |
|---|---|---|
| Real estate loans current or less than ninety days past due | $70,178 | $69,034 |
| Real estate loans ninety days past due | 12,384 | 19,958 |
| Real estate acquired by foreclosure awaiting liquidation | 11,360 | 13,982 |
| Total | $93,922 | $102,974 |
| Allowance for real estate loan losses | $ 4,851 | $6,191 |

The balance in the allowance for loan losses is in management's opinion adequate to absorb known and expected losses in the mortgage loan portfolio.

### (7) Safekeeping Risk

The Fund's deposits and investments are categorized below pursuant to Governmental Accounting Standards Board (GASB) Statement Number 3 and GASB Technical Bulletin No. 87-1 to give an indication of the level of safekeeping risk assumed by the Fund at statement date.

**Deposits:**

1. Insured or collateralized with securities held by the State or by its custodian in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.
3. Uncollateralized.

**Investments:**

1. Insured or registered for which the securities are held by the State or its custodian in the State's name.
2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.
3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

At June 30, 1991, all of the Fund's deposits and investments were considered to be Category 1 with respect to safekeeping risk.

# STATISTICAL SECTION

## EMPLOYER CONTRIBUTION RATES
## FISCAL YEAR 1991

| Employer | Percentage |
|---|---|
| Adak Region Schools | 13.90 |
| Akutan, City of | 8.89 |
| Alaska, State of | |
| Policemen, Firemen, IBU | 14.51 |
| All Other Employees, MM&P | 13.36 |
| Alaska Gateway School District | 10.37 |
| Alaska Housing Finance Corporation | 3.90 |
| Alaska Municipal League | 0.00 |
| Alaska State Housing Authority | 12.89 |
| Alaska, University of | 6.50 |
| Alaska Geophysical Institute, University of | 6.50 |
| Aleutian Region School District | 0.00 |
| Aleutians East Borough | 0.00 |
| Aleutians East Borough School District | 3.61 |
| Aleutians West Coastal Resource Service Area | 10.37 |
| Anchorage, Municipality of | 10.84 |
| Anchorage Parking Authority | 9.05 |
| Anchorage School District | 12.73 |
| Annette Island School District | 11.77 |
| Atka, City of | 10.37 |
| Barrow, City of | 5.52 |
| Bartlett Memorial Hospital | 11.22 |
| Bering Straits Coastal Resource Service Area | 10.37 |
| Bering Straits School District | 10.84 |
| Bethel, City of | 0.00 |
| Bristol Bay Borough | 12.30 |
| Bristol Bay Borough School District | 14.51 |
| Bristol Bay Coastal Resource Service Area | 7.20 |
| Bristol Bay Housing Authority | 11.89 |
| Chatham School District | 11.19 |
| Chugach Regional School District | 2.65 |
| Copper River Basin Regional Housing Authority | 13.99 |
| Copper River School District | 5.32 |
| Cordova, City of | 13.63 |
| Cordova Community Hospital | 6.93 |
| Cordova Public Schools | 16.01 |
| Craig, City of | 13.98 |
| Craig City School District | 17.26 |
| Delta/Greely School District | 10.37 |
| Dillingham, City of | 4.38 |
| Dillingham City School District | 17.58 |

## EMPLOYER CONTRIBUTION RATES
## FISCAL YEAR 1991

| Employer (continued) | Percentage |
|---|---|
| Elim, City of | 10.37 |
| Fairbanks, City of | 15.30 |
| Fairbanks Municipal Utilities System | 15.30 |
| Fairbanks North Star Borough | 2.55 |
| Fairbanks North Star Borough School District | 2.55 |
| Fort Yukon, City of | 0.00 |
| Galena, City of | 6.70 |
| Galena City School District | 0.00 |
| Grayling, City of | 10.37 |
| Haines Borough | 10.67 |
| Haines Borough School District | 10.37 |
| Haines, City of | 0.00 |
| Homer, City of | 13.27 |
| Hoonah, City of | 7.94 |
| Hoonah City School District | 17.83 |
| Hooper Bay, City of | 10.84 |
| Huslia, City of | 10.37 |
| Hydaburg School District | 10.68 |
| Iditarod Area School District | 10.21 |
| Juneau Borough School District | 11.40 |
| Juneau, City and Borough of | 9.90 |
| Kaltag, City of | 10.37 |
| Kashunamuit School District | 11.31 |
| Kenai, City of | 3.70 |
| Kenai Peninsula Borough | 11.74 |
| Kenai Peninsula Borough School District | 14.85 |
| Ketchikan, City of | 16.99 |
| Ketchikan Gateway Borough | 10.49 |
| Ketchikan Gateway Borough School District | 16.80 |
| King Cove, City of | 5.74 |
| Kivalina, City of | 10.37 |
| Klawock, City of | 21.94 |
| Klawock City School District | 10.37 |
| Kodiak, City of | 12.29 |
| Kodiak Island Borough | 7.55 |
| Kodiak Island Borough School District | 5.24 |

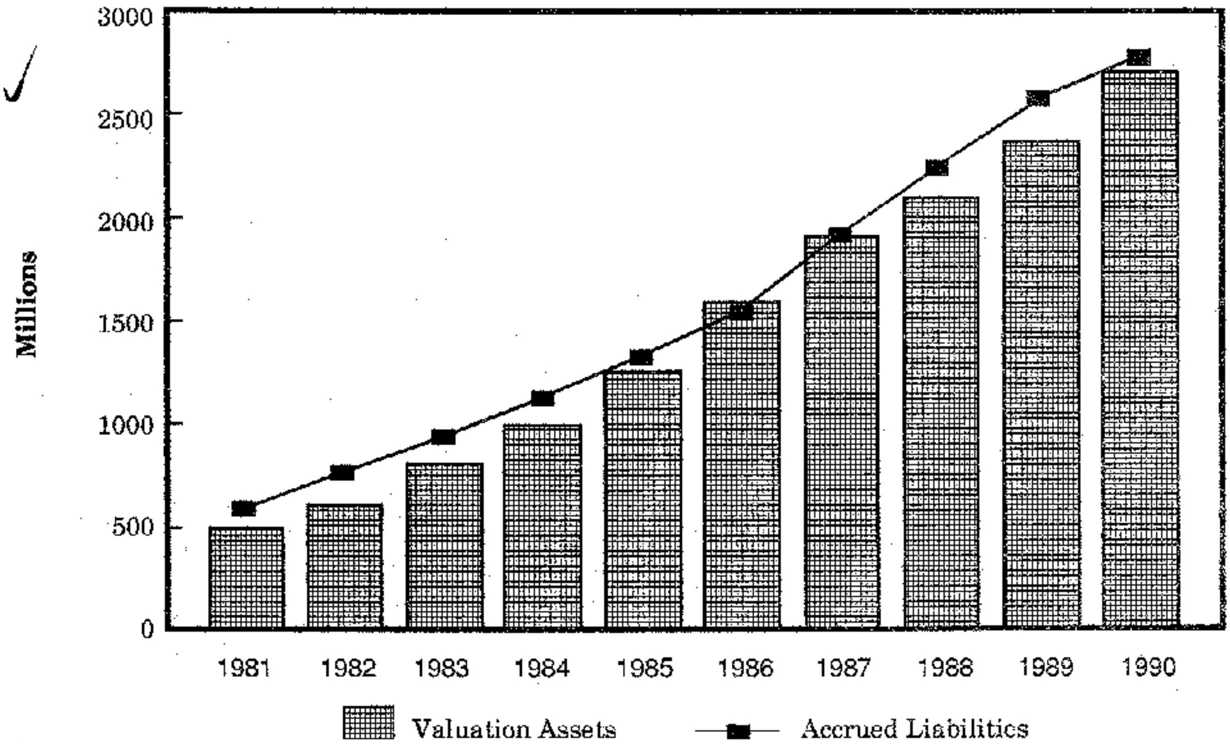
## EMPLOYER CONTRIBUTION RATES
## FISCAL YEAR 1991

| Employer (continued) | Percentage |
|---|---|
| Kotzebue, City of | 0.00 |
| Koyuk, City of | 10.37 |
| Kuspuk School District | 6.05 |
| | |
| Lake and Peninsula Borough | 10.37 |
| Lake and Peninsula School District | 5.95 |
| Lower Kalskag, City of | 10.37 |
| Lower Kuskokwim School District | 8.80 |
| Lower Yukon School District | 11.16 |
| | |
| Matanuska-Susitna Borough | 10.53 |
| Matanuska-Susitna Borough School District | 10.53 |
| Mekoryuk, City of | 10.37 |
| Mountain Village, City of | 10.37 |
| | |
| Nenana, City of | 0.00 |
| Nenana Public Schools | 10.60 |
| Nome, City of | 7.95 |
| Nome Joint Utility System | 0.00 |
| Nome Public Schools | 10.45 |
| Noorvik, City of | 10.37 |
| North Pacific Fishery Management Council | 0.00 |
| North Pole, City of | 6.76 |
| North Slope Borough | 2.12 |
| North Slope Borough School District | 9.23 |
| Northwest Arctic Borough | 9.55 |
| Northwest Arctic Borough School District | 0.00 |
| | |
| Old Harbor, City of | 10.37 |
| | |
| Palmer, City of | 14.38 |
| Pelican, City of | 13.94 |
| Pelican School District | 16.33 |
| Petersburg, City of | 13.62 |
| Petersburg General Hospital | 13.62 |
| Petersburg Public Schools | 13.62 |
| Pribilof School District | 9.84 |
| | |
| Railbelt School District | 2.26 |
| Ruby, City of | 10.37 |

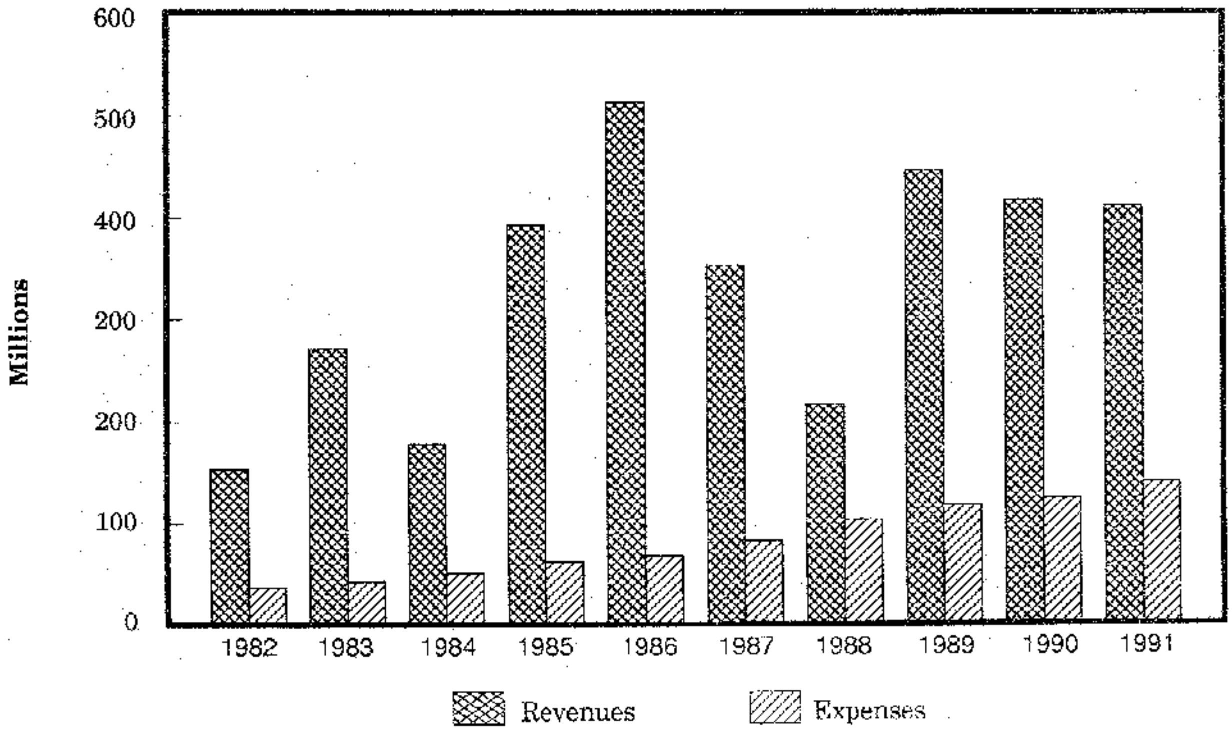
## EMPLOYER CONTRIBUTION RATES
## FISCAL YEAR 1991

| Employer (continued) | Percentage |
|---|---|
| Saint George, City of | 37.29 |
| Saint Mary's, City of | 12.45 |
| Saint Mary's School District | 22.73 |
| Saint Paul, City of | 9.15 |
| Sand Point, City of | 6.96 |
| Saxman, City of | 14.43 |
| Selawik, City of | 0.00 |
| Seward, City of | 8.10 |
| Seward General Hospital | 14.34 |
| Shishmaref, City of | 10.37 |
| Sitka, City and Borough of | 14.33 |
| Sitka Community Hospital | 3.73 |
| Sitka School District | 1.94 |
| Skagway, City of | .90 |
| Skagway City School District | 23.66 |
| Soldotna, City of | 16.16 |
| Southeast Island School District | 7.40 |
| South East Regional Resource Center | 0.00 |
| Southwest Region Schools | 4.96 |
| Special Education Service Agency | 10.90 |
| Tanana, City of | 3.56 |
| Tanana City School District | 12.52 |
| Thorne Bay, City of | 8.32 |
| Unalakleet, City of | 10.37 |
| Unalaska, City of | 0.00 |
| Unalaska City School District | 4.07 |
| Valdez, City of | 7.70 |
| Valdez City Schools | 11.11 |
| Wainwright, City of | 15.29 |
| Wasilla, City of | 9.32 |
| Whittier, City of | 10.71 |
| Wrangell, City of | 12.02 |
| Wrangell City Schools | 13.06 |
| Yakutat, City of | 18.11 |
| Yukon Flats School District | 0.00 |
| Yukon-Koyukuk School District | 0.00 |

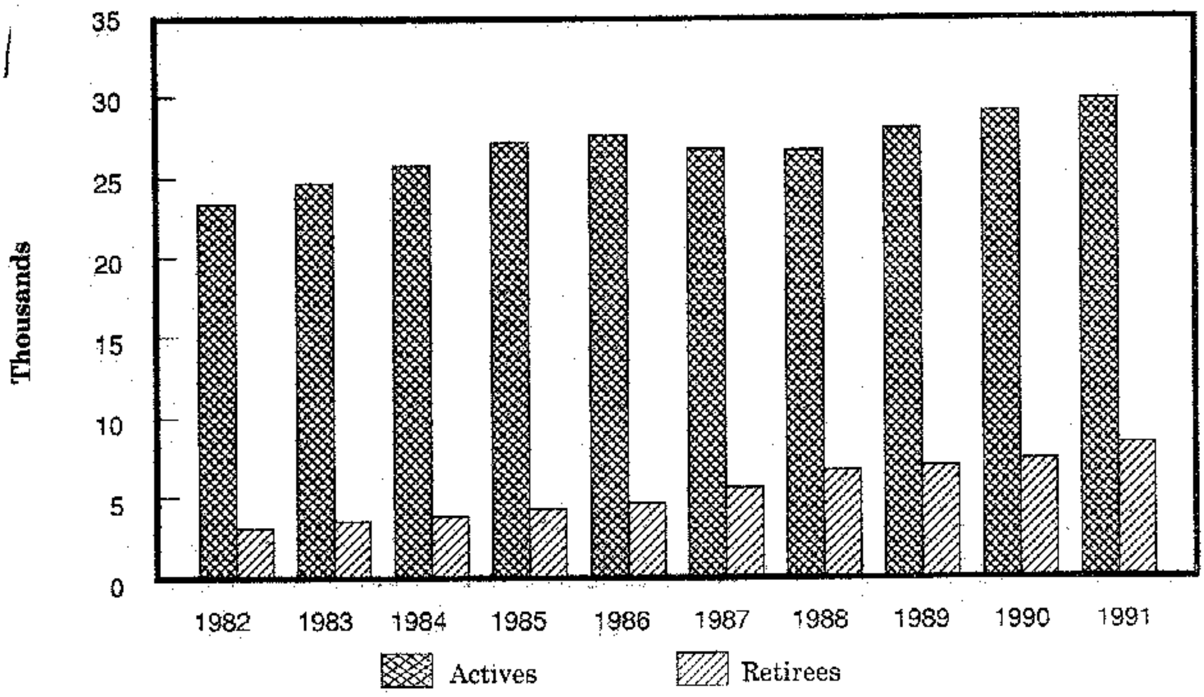
## 10-YEAR COMPARISON OF VALUATION ASSETS VS. ACCRUED LIABILITIES



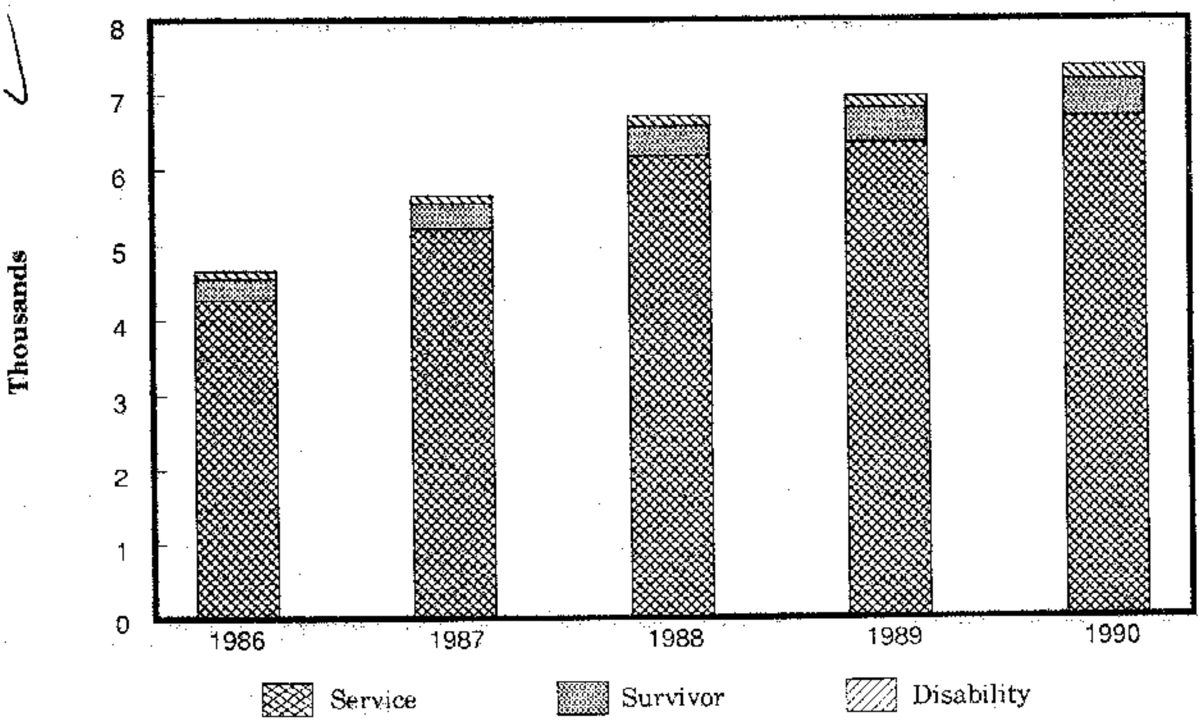

## 10-YEAR COMPARISON OF REVENUES AND EXPENSES



## 10-YEAR COMPARISON OF ACTIVE VS. RETIRED MEMBERS




## 5-YEAR BREAKDOWN OF TYPES OF RETIREMENTS

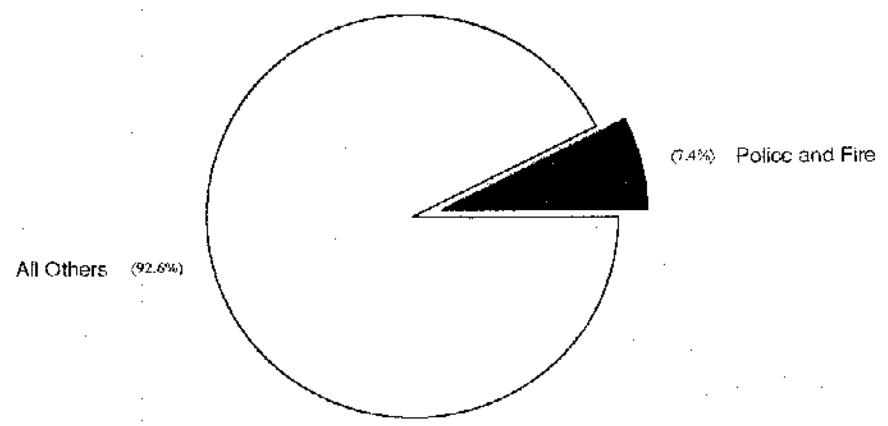


## Benefit Payments By Occupation
## Fiscal Year 1991

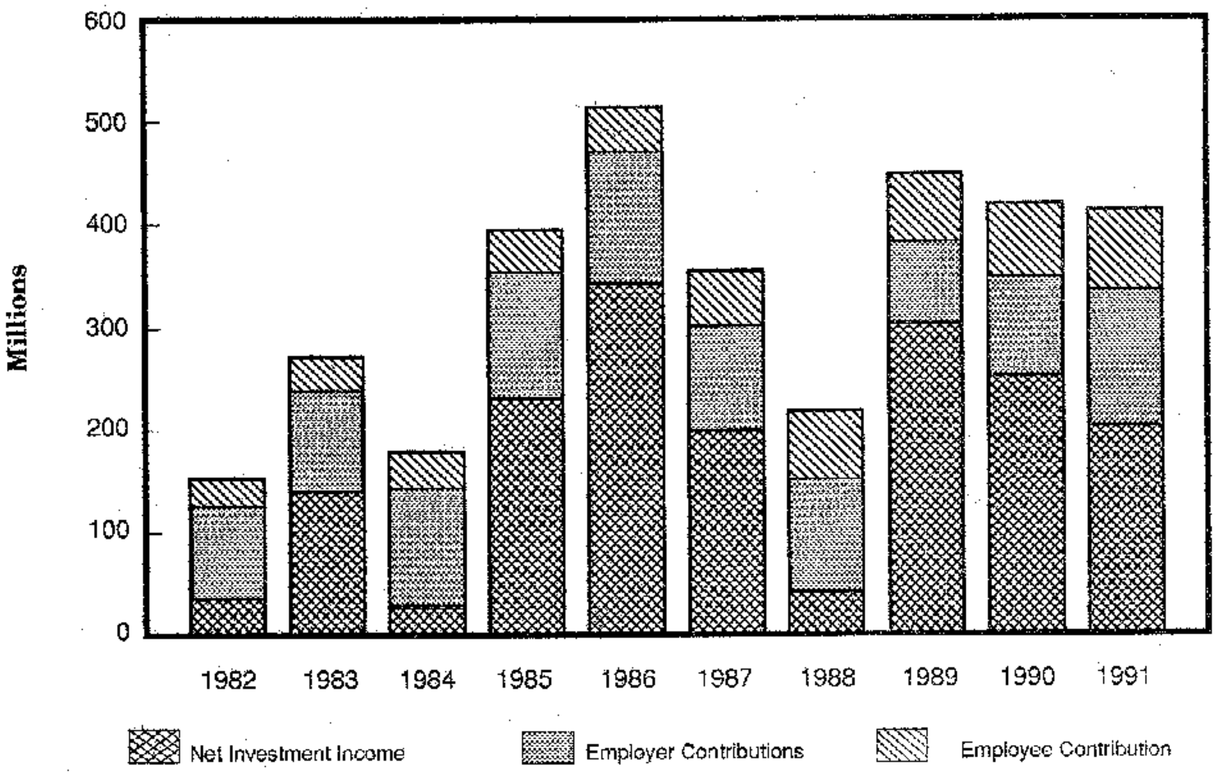
| Benefit Type | Regular Retirees | Peace Officer Retirees | Fireman Retirees | * Elected Off. Retirees | Total By Type |
|---|---|---|---|---|---|
| Base | $ 66,278,202 | $ 8,102,603 | $ 1,804,163 | $ 139,755 | $ 76,324,723 |
| Cost of Living Allowance | 5,518,349 | 668,017 | 168,262 | 18,256 | 6,372,884 |
| Non-Occupational Death | 2,245,159 | 84,234 | 76,663 | 11,015 | 2,417,071 |
| Occupational Death | 229,455 | 160,654 | 19,728 | - 0 - | 409,837 |
| Disability | 1,958,274 | 656,315 | 222,218 | - 0 - | 2,836,807 |
| Post Retirement Pension Adjustment | 9,622,222 | 912,778 | 223,556 | 20,701 | 10,779,257 |
| Voluntary Annuity | 2,995 | - 0 - | - 0 - | - 0 - | 2,995 |
| Lump Sum | 374,841 | 35,799 | 4,009 | 1,936 | 416,585 |
| Recalculation Adjustments | 80,510 | 9,018 | 1,136 | - 0 - | 90,664 |
| **Occupation Subtotal** | **$ 86,310,007** | **$ 10,629,418** | **$ 2,519,735** | **$ 191,663** | **$ 99,650,823** |
| Medical | | | | | $ 23,332,790 |
| **Total All Benefits** | | | | | **$122,983,613** |

* Active and Retired Elected Public Officers as of October 13, 1976, were mandatorily transferred to the Elected Public Officers Retirement System (EPORS), which was established by legislation on January 1, 1976. Under current legislation, all other elected officials may participate in the PERS or the TRS, or do not participate at their option.

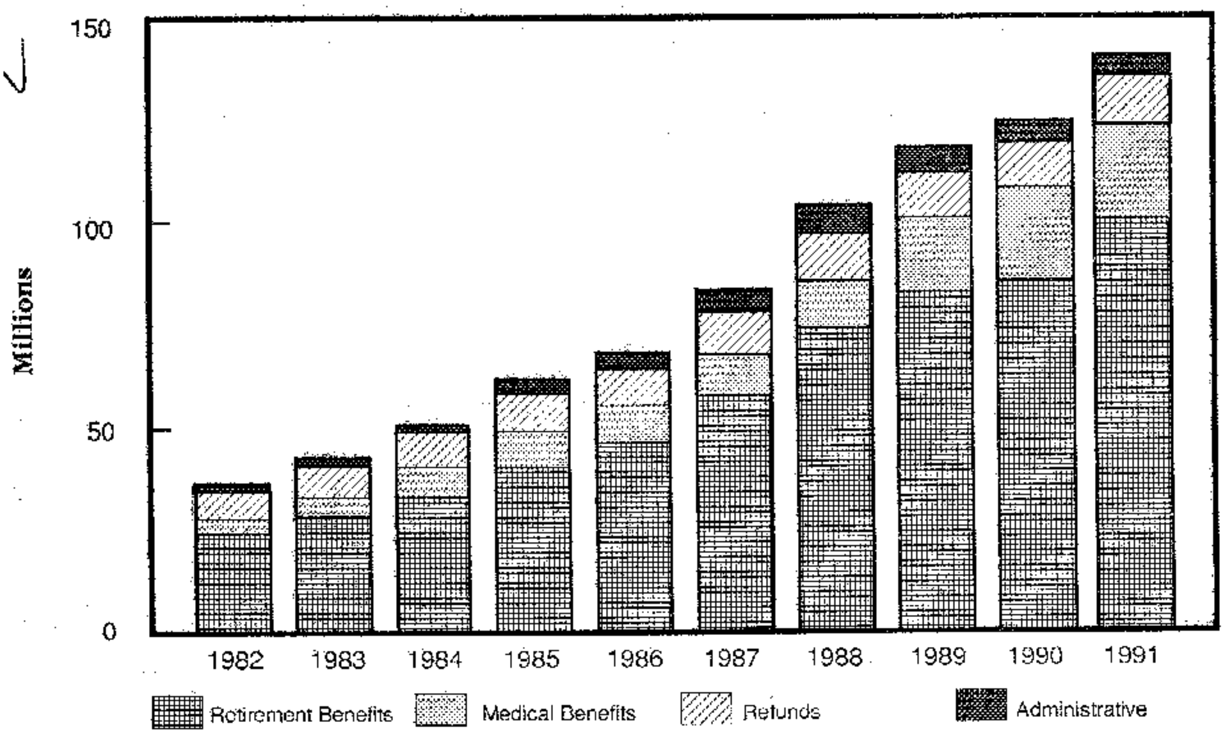
## ALL RETIREES AS OF JUNE 30, 1990 BY OCCUPATION



## 10-YEAR BREAKDOWN OF REVENUE BY SOURCES




## 10-YEAR BREAKDOWN OF EXPENSES BY TYPE

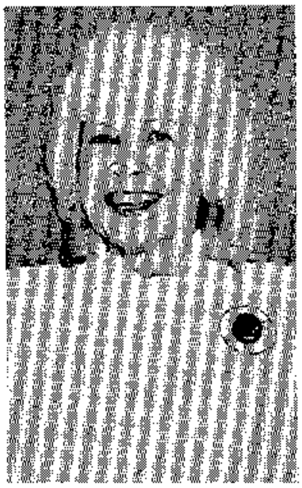


# TEACHERS' RETIREMENT SYSTEM

# TEACHERS' RETIREMENT BOARD

**Charles M. Arteaga,** Chair
Term Expires: 1/31/93

**Dorothy Wells,** Vice Chair
Term Expires: 6/30/93



**Stephanie Winsor**
Term Expires: 6/30/93

**Roxy A. McDonagh**
Term Expires: 1/31/92

Not shown:

**Cliff Koivisto,**
Term Expires: 1/31/94

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# FINANCIAL SECTION

Coopers
&Lybrand

certified public accountants

## Report of Independent Accountants

Division of Retirement and Benefits and
Members of the Alaska Teachers'
Retirement Board
State of Alaska
Teachers' Retirement System
Juneau, Alaska

We have audited the accompanying statements of net assets available for benefits of the State of Alaska Teachers' Retirement System as of June 30, 1991 and 1990, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the management of the State of Alaska, Department of Administration, Division of Retirement and Benefits. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits as of June 30, 1991 and 1990, and changes in net assets available for benefits for the years then ended, in conformity with generally accepted accounting principles.

The supplemental schedules of funding progress and revenues by source and expenses by type are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Coopers & Lybrand

Anchorage, Alaska
September 14, 1991

# STATE OF ALASKA
# TEACHERS' RETIREMENT SYSTEM

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
## June 30, 1991 and 1990

## ($000)

| | 1991 | 1990 |
|---|---|---|
| **Assets:** | | |
| Investments, at fair value: | | |
| United States Government securities | $ 420,898 | $ 564,959 |
| Corporate bonds, notes and debentures | 372,433 | 234,265 |
| Domestic equity fund | 715,287 | 539,685 |
| International equities | 109,947 | 123,496 |
| Real estate equity funds | 80,828 | 91,676 |
| Total investments | 1,699,393 | 1,554,081 |
| Loans and mortgages, at cost, net of allowance for loan losses of $4,574 in 1991 and $5,170 in 1990 | 74,471 | 82,134 |
| Receivables: | | |
| Contributions | 10,075 | 10,065 |
| Retirement incentive program | 9,283 | 1,753 |
| Accrued interest and dividends | 17,203 | 17,032 |
| Total receivables | 36,561 | 28,850 |
| Cash and cash equivalents | 16,905 | 44,415 |
| Total assets | 1,827,330 | 1,709,480 |
| **Liability** - accrued expenses | 2,667 | 3,134 |
| Net assets available for benefits | $1,824,663 | $1,706,346 |

*The accompanying notes are an integral part of the financial statements.*

# STATE OF ALASKA
# TEACHERS' RETIREMENT SYSTEM

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

### for the years ended June 30, 1991 and 1990

### ($000)

| | 1991 | 1990 |
|---|---|---|
| **Additions:** | | |
| Investment income: | | |
| Net (depreciation) appreciation in fair value of investments | $ (4,675) | $ 12,129 |
| Interest | 79,202 | 90,196 |
| Dividends | 30,226 | 20,449 |
| Net realized gains on sales | 17,499 | 35,720 |
| Total investment income before provision for losses on loans and mortgages | 122,252 | 158,494 |
| Reduction of allowance for losses on loans and mortgages | 597 | 247 |
| Net investment income | 122,849 | 158,741 |
| Contributions: | | |
| Employers | 46,056 | 49,501 |
| Employees | 38,687 | 33,783 |
| Retirement incentive program: | | |
| Employer | 11,926 | 4,169 |
| Employees | 1,372 | 1,441 |
| Total contributions | 98,041 | 88,894 |
| Total additions | 220,890 | 247,635 |
| **Deductions:** | | |
| Benefits paid: | | |
| Retirement | 84,443 | 71,134 |
| Medical | 10,654 | 9,713 |
| Total benefits paid | 95,097 | 80,847 |
| Refunds to terminated employees | 3,510 | 2,896 |
| Administrative expenses | 3,966 | 3,423 |
| Total deductions | 102,573 | 87,166 |
| Net increase | 118,317 | 160,469 |
| **Net assets available for benefits:** | | |
| Beginning of year | 1,706,346 | 1,545,877 |
| End of year | $1,824,663 | $1,706,346 |

*The accompanying notes are an integral part of the financial statements.*

# STATE OF ALASKA
# TEACHERS' RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

**1. Description of State of Alaska Teachers' Retirement System (Plan):**

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**General**

The Plan is the administrator of a cost-sharing multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. At June 30, 1991, the number of participating local government employers was:

| | |
|---|---|
| School districts | 54 |
| Other | 8 |
| Total employers | 62 |

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1990, Plan membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits | 4,000 |
| Current employees: | |
| Vested | 3,696 |
| Nonvested | 4,890 |
| | 12,586 |

*Continued*

1. **Description of State of Alaska Teachers' Retirement System (Plan), Continued:**

**Pension Benefits**

Vested employees hired prior to July 1, 1990 are entitled to pension benefits beginning at normal retirement age fifty-five, or early retirement at age fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is determined by the employee's three highest years salaries.

The benefit related to all years of service earned prior to July 1, 1990 and for years of service through a total of 20 years is equal to 2% of the employee's average base salary. The benefit for over twenty years of service subsequent to June 30, 1990 is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit or another person is eligible for the benefit under a qualified domestic relations order.

When benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, and (2) employees who are disabled or age 65 or older, regardless of their initial hire dates. Employees first hired after June 30, 1990 may receive major medical benefits prior to age 65 by paying premiums.

**Death and Disability Benefits**

If an active employee, first hired under the Plan before July 1, 1982, is participating in the supplemental contribution provision, dies and is survived by either a spouse or dependent child(ren), a spouse's pension or a survivor's allowance may be payable. The amount of the pension or allowance is determined by the employee's base salary.

*Continued*

1. **Description of State of Alaska Teachers' Retirement System (Plan), Continued:**

**Pension Benefits, Continued**

If an active employee, who is not participating in or eligible for coverage under the supplemental contribution provision, dies from occupational or nonoccupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of his/her death and the credited service that would have accrued if the employee had lived and continued to work until normal retirement age.

If an employee with five or more paid up years of membership service is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at time of disablement plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, the disabled employees begin receiving normal retirement benefits.

**Effect of Plan Termination**

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

2. **Summary of Significant Accounting Policies:**

**Basis of Accounting**

The Plan's financial statements are prepared using the accrual basis of accounting.

*Continued*

**2. Summary of Significant Accounting Policies, Continued:**

**Valuation of Investments**

Investments, other than real estate equity funds and loans and mortgages, are carried at market value to reflect the asset values of the Plan as determined by the last quoted sales price at June 30, 1991 and 1990.

Real estate equity funds are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

Loans and mortgages are serviced by the institution from which the loan is purchased. The policy of the Plan is to hold these investments until maturity and, accordingly, the investments are stated at cost, less an allowance for estimated loan losses. Loans and mortgages include approximately $11,375,000 and $10,940,300 for 1991 and 1990, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

The investment activity of all common stocks was consolidated October 1, 1987 with the common stocks of other State funds to form a domestic equity fund. The activity from October 1, 1987 and the June 30, 1991 and 1990 balances of this domestic equity fund are accounted for on a unit-accounting basis. All income and realized and unrealized gains are allocated monthly to each participating fund on a pro rata ownership basis. All income earned is included in dividend income. At June 30, 1991 and 1990, the Plan's investment in the domestic equity fund is comprised of the following ($000):

| | 1991 | 1990 |
|---|---|---|
| Domestic equities | $672,784 | $501,414 |
| Interest and dividends receivable | 2,061 | 1,504 |
| Cash and cash equivalents | 40,442 | 36,767 |
| Total | $715,287 | $539,685 |

*Continued*

## 2. Summary of Significant Accounting Policies, Continued:

### Valuation of Investments, Continued

International equities at June 30, 1991 and 1990 are comprised of the following ($000):

| | 1991 | 1990 |
|---|---|---|
| Foreign equities | $102,830 | $117,153 |
| Cash and cash equivalents | 7,117 | 6,343 |
| | $109,947 | $123,496 |

Cash and cash equivalents at June 30, 1991 and 1990 are comprised of the following:

| | 1991 | 1990 |
|---|---|---|
| Interest bearing deposits | $ (207) | $ 782 |
| Investment maturities in transit | 912 | 32,000 |
| Repurchase agreements | 16,200 | 11,633 |
| | $ 16,905 | $ 44,415 |

State of Alaska treasury investment policy requires that securities underlying repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement.

The Commissioner of Revenue has the statutory authority to invest the monies of the Plan. This authority is delegated to investment officers of the Treasury Division of the Department of Revenue. Alaska Statute provides for the investment in United States Treasury or agency securities; corporate debt securities; preferred and common stock; commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits; gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska; guaranteed loans; notes collateralized by mortgages; certificates of deposit and banker's acceptances.

*Continued*

**2. Summary of Significant Accounting Policies, Continued:**

**Valuation of Investments, Continued**

To provide an indication of the level of credit risk assumed by the Plan at June 30, 1991, the Plan's deposits and investments are categorized as follows:

**Deposits**

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

**Investments**

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name.

| | Category ($000) | | | Market Value |
|---|---|---|---|---|
| | #1 | #2 | #3 | (Carrying Value) |
| Deposits - cash | $ 16,905 | | | $ 16,905 |
| Investments: | | | | |
| United States Government securities | 420,898 | | | 420,898 |
| Corporate bonds, notes and debentures | 372,433 | | | 372,433 |
| Domestic equity fund | 715,287 | | | 715,287 |
| International equities | 109,947 | | | 109,947 |
| Real estate equity funds | 80,828 | | | 80,828 |
| | $1,716,298 | | | $1,716,298 |

*Continued*

## 2. Summary of Significant Accounting Policies, Continued:

### Valuation of Investments, Continued

During 1991 and 1990, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows ($000):

| | 1991 | 1990 |
|---|---|---|
| United States Government securities | $(1,060) | $(16,266) |
| Corporate bonds, notes and debentures | 2,039 | (5,118) |
| Domestic equity fund | 23,702 | 28,534 |
| International equities | (14,801) | 5,598 |
| Real estate equity funds | (14,555) | (619) |
| | $ (4,675) | $ 12,129 |

The cost, market and carrying value of the Plan's investments as of June 30, 1991 and 1990 are as follows:

| | 1991 | | |
|---|---|---|---|
| | Cost | Market | Carrying Value |
| United States Government securities | $ 381,487 | $ 420,898 | $ 420,898 |
| Corporate bonds, notes and debentures | 366,760 | 372,433 | 372,433 |
| Domestic equity fund | 631,146 | 715,287 | 715,287 |
| International equities | 115,049 | 109,947 | 109,947 |
| Real estate equity funds | 86,603 | 80,828 | 80,828 |
| Loans and mortgages, net of allowance for loan losses of $4,574 | 74,471 | 78,367 | 74,471 |
| | $1,655,516 | $1,777,760 | $1,773,864 |

*Continued*

2. **Summary of Significant Accounting Policies, Continued:**

**Valuation of Investments, Continued**

| | 1990 | | |
|---|---|---|---|
| | **Cost** | **Market** | **Carrying Value** |
| United States Government securities | $ 524,489 | $ 564,959 | $ 564,959 |
| Corporate bonds, notes and debentures | 230,631 | 234,265 | 234,265 |
| Domestic equity fund | 479,245 | 539,685 | 539,685 |
| International equities | 113,797 | 123,496 | 123,496 |
| Real estate equity funds | 82,897 | 91,676 | 91,676 |
| Loans and mortgages, net of allowance for loan losses of $5,170 | 82,134 | 85,140 | 82,134 |
| | $1,513,193 | $1,639,221 | $1,636,215 |

**Contributions Receivable**

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

**Accrued Interest and Dividends**

Accrued interest and dividends represent amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Accrued interest on loans and mortgages is not recorded until received.

## 3. Funding Status and Progress:

The amount shown below as "pension benefit obligation", which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in Note 4 below.

The pension benefit obligation is determined by William M. Mercer, Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1990 are as follows:

a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.

b. Mortality basis - 1984 Unisex Pension Mortality Table set back one and one-half years.

c. Retirement age - retirement rates based on actual experience.

d. Interest rate - 9% per annum, compounded annually, net of investment expenses.

e. Health cost inflation - 9% per annum.

f. Salary scale - increase of 6.5% for the first five years of employment and 5.5% per year thereafter.

g. Cost of living allowance (domicile in Alaska) - 54% of those receiving benefits will be eligible to receive the cost of living allowance.

*Continued*

**3. Funding Status and Progress, Continued:**

h. Contribution refunds - 100% of those employees terminating after age thirty-five who are vested will leave their contributions and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

i. Asset valuation - five-year average ratio between market and book values of the Plan's assets except that fixed income investments are carried at book value. Valuation assets cannot be outside of the range of book and actuarial values.

Turnover and disability assumptions are based upon actual historical occurrence rates of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1990, the unfunded pension benefit obligation was $188.7 million, as follows ($ in millions):

| | |
|---|---|
| Net assets available for benefits as of June 30, 1990, at market, as more fully described in Note 2 | $ 1,706.3 |
| Pension benefit obligation: | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | 940.5 |
| Current employees: | |
| Accumulated employee contributions including allocated investment income | 269.5 |
| Employer-financed vested | 587.8 |
| Employer-financed nonvested | 97.2 |
| Total pension benefit obligation as of June 30, 1990 | 1,895.0 |
| Unfunded pension benefit obligation as of June 30, 1990 | $ 188.7 |

**4. Contributions:**

**Employees' Contributions**

Prior to January 1, 1991, employees contributed 7% of their base salary as required by statute. Effective January 1, 1991, employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Qualified members may make an additional contribution of 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan. Present employees' accumulated contributions at June 30, 1991 were $298,447,000. Employees' contributions earn interest at the rate of 4.5% per annum, compounded annually.

**Employers' Contributions**

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following ($000):

| | 1991 | | 1990 | |
|---|---|---|---|---|
| | Contributions ($000) | Percentage of Coverage Payroll | Contributions ($000) | Percentage of Coverage Payroll |
| Employers | $ 46,056 | 9% | $ 49,501 | 11% |
| Employees | 38,687 | 8 | 33,783 | 7 |
| | $ 84,743 | 17% | $ 83,284 | 18% |

*Continued*

**4. Contributions, Continued:**

**Employers' Contributions, Continued**

| | 1991 | 1990 |
|---|---|---|
| Normal cost | $81,913 | $75,031 |
| Amortization of unfunded actuarial accrued liability | 2,830 | 8,253 |
| | $84,743 | $83,284 |

Actuarial valuations for 1991 and 1990 were performed as of June 30, 1990 and 1989, respectively.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note 3.

**5. Retirement Incentive Program:**

Legislation passed in May 1986 established a retirement incentive program designed to encourage eligible employees to voluntarily retire in order to reduce personal services costs. The program was available to eligible University of Alaska employees from October 1, 1986 to September 30, 1987, and all other employees until June 30, 1987.

Legislation was passed in June 1989 and amended effective April 1, 1990 establishing a second retirement incentive program. The second program was available to state employees from October 1, 1989 through March 31, 1990, and all other employees from July 1, 1989 through December 31, 1989.

The retirement incentive program receivable represents the reimbursement due from employers participating in the programs and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which employees retired. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Employees were indebted to the Plan 21% of their annual compensation for the school year in which they terminated employment to participate in the programs. Any outstanding indebtedness at the time an employee was appointed to retirement resulted in an actuarial adjustment of his/her benefit.

*Continued*

**5. Retirement Incentive Program, Continued:**

The effect of the 1986 retirement incentive program on the pension benefit obligation was fully accounted for in the June 30, 1988 actuarial valuation. The effect of the 1989 program on the pension benefit obligation has been and will be accounted for in the June 30, 1990 and 1991 actuarial valuations, respectively, as the eligible employees actually retire.

**6. Ten-year Historical Trend Information:**

Ten-year historical trend information (where available) designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented on the accompanying supplemental schedules of analysis of funding progress and revenues by source and expenses by type.

# STATE OF ALASKA
# TEACHERS' RETIREMENT SYSTEM

## REQUIRED SUPPLEMENTARY INFORMATION

## ANALYSIS OF FUNDING PROGRESS

## (Unaudited)

## ($000)

| Year Ended June 30, | Net Assets Available | Pension Benefit Obligation | Percentage Funded | Unfunded (Assets in Excess of) Pension Benefit Obligation | Annual Covered Payroll | Unfunded (Assets in Excess of) Pension Benefit Obligation as of Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 1985 | $ 866,333 | $1,042,551 | 83.1% | $176,218 | $358,110 | 49.2 % |
| 1986 | 1,141,650 | 1,115,773 | 102.3 | (25,877) | 392,136 | (6.6) |
| 1987 | 1,303.464 | 1,210,909 | 107.6 | (92,555) | 348,606 | (26.6) |
| 1988 | 1,356,575 | 1,347,859 | 100.6 | 8,716 | 361,310 | 2.4 |
| 1989 | 1,545,877 | 1,557,643 | 99.2 | 11,766 | 431,445 | 2.7 |
| 1990 | 1,706,346 | 1,895,030 | 90.0 | 188,684 | 449,838 | 41.9 |

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

*See notes to financial statements.*

# STATE OF ALASKA
# TEACHERS' RETIREMENT SYSTEM

## REQUIRED SUPPLEMENTARY INFORMATION

## REVENUES BY SOURCE AND EXPENSES BY TYPE

(Unaudited)

($000)

| | Revenues By Sources | | | | | Employer Contribution as of Percentage of Annual Covered Payroll |
|---|---|---|---|---|---|---|
| Year Ended June 30, | Employee Contributions | Employer Contributions | Investment Income | Unrealized Appreciation (Depreciation) in Market Value | Total | |
| 1982 | $21,735 | $50,857 | $ 31,574 | $(6,701) | $ 97,465 | 18.7% |
| 1983 | 24,546 | 54,718 | 62,846 | 36,218 | 178,328 | 18.6 |
| 1984 | 27,257 | 63,316 | 61,559 | (48,194) | 103,938 | 19.4 |
| 1985 | 29,176 | 68,826 | 74,171 | 78,418 | 250,591 | 19.2 |
| 1986 | 32,039 | 69,276 | 119,173 | 103,643 | 324,131 | 17.7 |
| 1987 | 34,159 | 58,177 | 143,692 | (15,677) | 220,351 | 16.7 |
| 1988 | 33,104 | 69,363 | 100,239 | (75,566) | 127,140 | 19.2 |
| 1989 | 31,888 | 47,348 | 125,170 | 65,243 | 269,649 | 11.0 |
| 1990 | 35,224 | 53,670 | 146,612 | 12,129 | 247,635 | 11.9 |
| 1991 | 40,059 | 57,982 | 127,524 | (4,675) | 220,890 | 14.1 |

| | Expenses By Type | | | | |
|---|---|---|---|---|---|
| | Retirement Benefits | Medical Benefits | Refunds to Terminated Employees | Administrative Expenses | Total |
| 1982 | $21,198 | $ 1,683 | $2,974 | $1,333 | $ 27,188 |
| 1983 | 24,053 | 2,307 | 2,509 | 1,606 | 30,475 |
| 1984 | 27,792 | 3,257 | 3,094 | 1,605 | 35,748 |
| 1985 | 33,360 | 4,393 | 3,126 | 2,951 | 43,830 |
| 1986 | 38,476 | 4,424 | 3,311 | 2,603 | 48,814 |
| 1987 | 46,183 | 4,613 | 4,239 | 3,502 | 58,537 |
| 1988 | 60,939 | 5,040 | 3,798 | 4,252 | 74,029 |
| 1989 | 65,328 | 8,073 | 2,953 | 3,993 | 80,347 |
| 1990 | 71,134 | 9,713 | 2,896 | 3,423 | 87,166 |
| 1991 | 84,443 | 10,654 | 3,510 | 3,966 | 102,573 |

Contributions including contributions under the retirement incentive program were made in accordance with actuarially determined contribution requirements.

*See notes to financial statements.*

## STATE OF ALASKA
## TEACHERS' RETIREMENT SYSTEM

# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

## (Unaudited)

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan's actuarial funding method for the years ended June 30, 1978 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

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# ACTUARIAL SECTION

## Highlights

This report has been prepared by William M. Mercer, Incorporated to:

(1) present the results of a valuation of the Alaska Teachers' Retirement System as of June 30, 1990;

(2) review experience under the plan for the year ended June 30, 1990;

(3) determine the appropriate contribution rate for the State and each school district in the System;

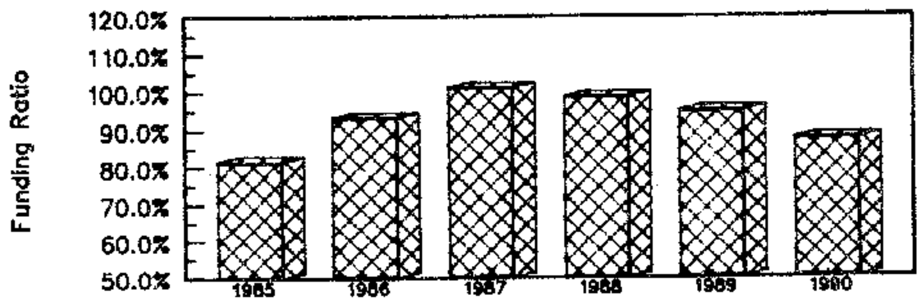
(4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1989-90 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

| | 1989 | 1990 |
|---|---|---|
| Funding Status as of June 30: | | |
| (a) Valuation Assets* | $ 1,480,389 | $ 1,662,242 |
| (b) Accrued Liability* | 1,557,643 | 1,895,030 |
| (c) Funding Ratio, (a) / (b) | 95.0% | 87.7% |




* In thousands.

| Employer Contribution Rates For Fiscal Year: | | 1992 | 1993 |
|---|---|---|---|
| (a) | Normal Cost Rate | 13.26% | 14.07% |
| (b) | Past Service Rate | 1.90% | 5.58% |
| (c) | Total Contribution Rate | 15.16% | 19.65% |
| (d) | Three-year Average Rate | 11.87% | 15.69% |

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by the audited report from Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value, and the method suggested for funding it, are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

Brian R. McGee

Brian R. McGee, FSA
Principal

Peter Godfrey

Peter L. Godfrey, FIA, ASA
Consulting Actuary

BRM/PLG/jls

April 11, 1991

# ANALYSIS OF THE VALUATION

As shown in the Highlights section of this report, the funding ratio as of June 30, 1990 has decreased from 95.0% to 87.7%, a 7.3% decrease. The total employer contribution rate has increased from 15.16% of payroll to 19.65%, an increase of 4.49%. The three-year average rate has also increased from 11.87% to 15.69%, a 3.82% increase. The reasons for the change in the funded status and contribution rate are explained below.

1. **Chapter 97, 1990 SLA**

Chapter 97, 1990 SLA passed the Alaska State Legislature last year and was signed into law by Governor Cowper. The bill changed many of the TRS benefit provisions, some of which increase and some decrease the contribution requirements to the System and the funded status of TRS. Some of the major changes include:

a. Automatic PRPA's will be granted to all current and future retirees.

b. The benefit formula multiplier was increased for future service over 20 years.

c. Employee contribution rates were increased by 1.65%, and are now being made on a tax-deferred basis.

d. Members with 12 years of combined part-time and full-time service are vested.

e. Normal retirement age for new employees was raised to age 60.

f. COLA benefits for new employees will be delayed to age 65, unless disabled.

g. Post-retirement medical benefits for new employees will be reduced.

You will note that items a through d above are effective in FY91 for all employees while items e, f and g, all cost saving items, are applicable only to employees first hired after June 30, 1990. The ultimate cost to the System should be close to the current level. The pattern of costs, however, will be higher in early years when few people are covered by the cost saving features. Contribution rates will then reduce over time as new employees enter the System.

Chapter 97, 1990 SLA caused an increase in the total employer contribution rate of 6.76% and an increase in accrued liability of about $266,783,000.

2. **Retiree Medical Insurance**

During the year ended June 30, 1990, the System experienced an actuarial gain of $57,386,000 due to the reduction in retiree medical premiums.

Because, in recent years, the adverse retiree medical premium experience was a major reason for the rapidly increasing employer contribution rate and the deteriorating funding ratio, it is certainly welcome news to be able to comment on a stabilization in retiree medical premiums.

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS.

| Fiscal Year | Monthly Premium Per Retiree For Health Coverage | Annual Percentage Increase | Average Annual Increase Since 1978 |
|---|---|---|---|
| 1977 | $ 34.75 | — | — |
| 1978 | 57.64 | 66% | — |
| 1979 | 69.10 | 20% | 20% |
| 1980 | 64.70 | - 6% | 6% |
| 1981 | 96.34 | 49% | 19% |
| 1982 | 96.34 | 0% | 14% |
| 1983 | 115.61 | 20% | 15% |
| 1984 | 156.07 | 35% | 18% |
| 1985 | 191.85 | 24% | 19% |
| 1986 | 168.25 | -12% | 14% |
| 1987 | 165.00 | - 2% | 12% |
| 1988 | 140.25 | -15% | 9% |
| 1989 | 211.22 | 51% | 13% |
| 1990 | 252.83 | 20% | 13% |
| 1991 | 243.98 | - 4% | 12% |
| 1992 | 243.98 | -- | 11% |

As you can see from the above table, the monthly retiree medical premium reduced to $243.98 during the year from $252.83, a decrease of 3.50%. The premium for the 1992 fiscal year remained unchanged.

As noted in last year's valuation report, the State has seen a dramatic shift to post-65 rates which have increased considerably faster than pre-65 rates. However, both rates reduced by 3.50% in FY91 and have remained unchanged for FY92, resulting in the first actuarial gain from medical benefits for the System since the June 30, 1987 valuation of the System.

The effect on the past service contribution rate of this reduction in retiree medical premiums was a reduction of 1.38% of payroll. The effect on the normal cost rate was a reduction of 0.90%, resulting in a reduction in the total employer contribution rate due to medical benefits of 2.28% of payroll.

**2. Investment Performance**

The System once again experienced actuarial gains arising from the investment performance of the Trust assets. Although the return as measured by market values was lower this year than last year, the effect of the five-year smoothing was to increase the return as measured by valuation assets from last year. The approximate rate of return based on market values was 10.03% and the rate based on valuation assets was 11.92%. The resulting actuarial gain was $43,235,000 which had the effect of reducing the total employer contribution rate by 1.04%.

### 3. Salary Increases

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of $20,599,000 which generated a reduction in the total employer contribution rate of .49% of payroll.

### 4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased .7%, from 8,527 at June 30, 1989 to 8,586 at June 30, 1990. The average age of active participants increased from 41.82 to 42.21 and average credited service increased from 10.61 to 10.62 years.

The number of retirees and beneficiaries increased 2.8%, from 3,098 to 3,184, and their average age increased from 61.85 to 62.45. There was a 60.6% increase in the number of vested terminated participants from 508 to 816. Their average age increased from 45.11 to 46.75.

The overall effect of these participant data changes was an actuarial loss of $16,505,000, resulting in an increase in the past service contribution rate of 0.40% of payroll. These demographic changes also had the effect of increasing the normal cost rate by .70%, resulting in an increase in the average total employer contribution rate of 1.10% of payroll.

## Retirement Incentive Program

The second Retirement Incentive Program has been available to participants since July 1, 1989. The number of new retirees increased from 187 at June 30, 1989 to 199 at June 30, 1990. Although the full effect of the R.I.P. may not be seen until next year's valuation, the R.I.P. was responsible in part for the increase in the number of new retirees.

As with the first R.I.P., the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the R.I.P. are met, the total cost to the System will be equal to the employers' payments.

## Summary

The following table summarizes the sources of change in the total employer contribution rate:

| | |
|---|---|
| (1) Last year's total employer contribution rate (before smoothing) | 15.16% |
| (2) Increase in total employer contribution rate due to Chapter 97, 1990 SLA | 6.76% |
| (3) Decrease in past service rate due to retiree medical insurance | (1.38%) |
| (4) Decrease in normal cost rate due to retiree medical insurance | (0.90%) |
| (5) Decrease due to investment performance | (1.04%) |
| (6) Decrease due to salary increases | (0.49%) |
| (7) Increase in past service rate due to demographic experience | 0.40% |
| (8) Increase in normal cost rate due to demographic experience | 0.70% |
| (9) Impact of all other factors | 0.44% |
| (10) Total employer contribution rate this year (before smoothing) | 19.65% |

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. The effect of Chapter 97, 1990 SLA, however, caused a substantial increase in current contribution rates and a decrease in the funded status to 87.7%.

# SUMMARY OF THE ALASKA TEACHERS' RETIREMENT SYSTEM

## (1) Effective Date

June 30, 1955, with amendments through June 30, 1990. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. New members who are first hired under the TRS after June 30, 1990 are entitled to different benefits than those members who were hired before July 1, 1990.

## (2) Administration of Plan

The Commissioner of Administration is responsible for administration of the system; the Alaska Teachers' Retirement Board prescribes policies and adopts regulations to carry out provisions of the system; and the Commissioner of Revenue invests the funds. The Attorney General represents the system in legal proceedings.

## (3) Membership

Membership in the Alaska TRS is compulsory for the following employees:

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;
- the Commissioner of the Alaska Department of Education and certificated supervisors employed by the Department of Education in permanent positions requiring teaching certificates;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator (employees who elect to participate in the University of Alaska's optional retirement plan are excluded);
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310; and
- certain State legislators who have elected to be covered under the TRS.

TRS members who receive TRS disability benefits are also covered under the TRS and earn membership service while they are on disability.

Additionally, employees who work half-time in the TRS and half-time in the Public Employees' Retirement System (PERS) simultaneously are eligible for half-time TRS and PERS credit.

## (4) Credited Service

A year of membership service is defined to be the same as a school term which is currently a minimum of 172 days, and fractional service credit is on a daily rate basis. Credit is granted for all Alaskan public school service.

TRS members may claim TRS credit for the following service:

- **Outside teaching service.** Members may claim up to ten years of outside service for their employment in out-of-state schools or Alaska private schools. Outside service includes employment as:

  (a) certificated full-time elementary and secondary teachers and certificated full-time employees in positions which require teaching certificates as a condition of employment with out-of-state public schools and approved or accredited nonpublic schools either inside or outside of the United States supported by U.S. funds;

  (b) full-time employees in out-of-state institutions of higher learning requiring academic standing and accreditation; or

  (c) full-time teachers in approved or accredited nonpublic institutions of higher learning in Alaska.

  Contributions are required for service which is claimed. For members first hired after June 30, 1978, the full actuarial cost of providing benefits for the service will be borne by the member. Credit for fractional years of outside service is not allowed.

- **Part-time teaching service.** Members receive one-half year of membership service for each year as a part-time teacher.

- **Military service.** Members may claim up to five years of military service; however, the combined total of outside and military service may not exceed ten years, unless entry into the military is immediately preceded by TRS service and following discharge is continued by TRS service within one year. Contributions are required for service which is claimed. Credit for fractional years of military service is allowed.

- **Bureau of Indian Affairs (BIA) service in Alaska.** Members may claim their Alaska BIA service as professional educators and certificated full-time teachers in positions requiring teaching certificates. Contributions are required for service which is claimed. Credit for fractional years of BIA service is allowed.

- **Retroactive service.** Members may claim their earlier Alaskan service that was not creditable at the time it occurred but later became creditable because of legislative change. Retroactive contributions are required for earlier service that recurred after June 30, 1955. Contributions are not required for service before July 1, 1955.

- **Unused sick leave.** Members may claim their unused sick leave after they retire. Contributions are not required.

- **Leave of absence without pay.** Members may receive credit for their employer-approved leave of absence without pay. Contributions are required.

**(5) Computation of Average Base Salary**

A member's average base salary is determined by averaging the highest base salaries that the member received for any three years of membership service during which the member received compensation for at least two-thirds of each school year.

**(6) Employer Contributions**

The employer contributes an amount required, in addition to member contributions, to finance the benefits of the system.

**(7) Employee Contributions**

**Mandatory Employee Contributions:** 8.65% of base salary. Employee contributions are deducted from the gross salary before federal income tax is withheld.

*Note:* Prior to January 1, 1990, the rate was 7%. Employee contributions were deducted from the gross salary after federal income tax was withheld.

**Interest Credited**: 4.5% compounded annually on June 30.

**Refund of Contributions**: If a member terminates TRS employment, the balance of the account (mandatory contributions, indebtedness payments and interest earned) may be withdrawn by the member.

*Note:* The contribution accounts of terminated members may be attached to satisfy claims made under Alaska Statute 09.38.065, federal income tax levies and valid Qualified Domestic Relations Orders.

**Reinstatement of Contributions**: If mandatory contributions are withdrawn, the member must return to TRS employment in order to reinstate the refunded service. Upon reemployment, an indebtedness will be established for the amount of the refund. Contributions that are attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time; the member is not required to return to TRS employment. The indebtedness will accrue interest until it is paid in full or the member retires, whichever occurs first.

**Refund at Death:** If monthly survivor's benefits are not payable upon the member's death, the member's contribution account balance, including mandatory and supplemental contributions, indebtedness payments, and interest earned, will be paid to the designated beneficiary. When the member has more than one year of TRS service, the beneficiary will also receive $1,000 plus $100 for each year of membership service (not to exceed $3,000). An additional $500 may be payable if the member is survived by dependent children.

**(8) 1% Supplemental Contributions**

If a member first joined the system before July 1, 1982 and elected to participate in the supplemental contributions provision, a spouse's pension and/or survivor's allowance may be payable to his or her spouse and dependent children. To participate, the member must contribute an additional 1% of his or her base salary. An election to participate must be made no later than 90 days after marriage, the birth or adoption of a child, or reemployment in the system if there was at least a twelve (12) month break in service.

## (9) Normal Retirement Eligibility

The first of the month following the earlier of (a) or (b) below:

(a) Upon attaining age 60 (age 55 for members who participated before July 1, 1990) and meeting one of the following service requirements:

(i) Eight years of fully-paid membership service; or

(ii) 15 years of fully-paid creditable service, the last five of which have been membership service; (if hired after June 30, 1975 a member needs eight years of fully-paid membership service); or

(iii) Five years of fully-paid membership service and three years of fully-paid Alaska B.I.A. service; or

(iv) 12 years of combined part-time and full-time fully-paid membership service (at least one-half year each); or

(v) two years of fully-paid membership service if the member is vested in the Public Employees' Retirement System;

or;

(b) At any age after meeting one of the following service requirements:

(i) 25 years of fully-paid creditable service, the last five of which are membership service; or

(ii) 20 years of fully-paid membership service; or

(iii) 20 years of fully-paid combined membership service and Alaska B.I.A. service, the last five of which are membership service.

(iv) 20 years of combined part-time and full-time fully-paid membership service (at least one-half year each).

A member who has been receiving TRS disability benefits is eligible for a service retirement benefit upon satisfying normal retirement eligibility.

## (10) Normal Retirement Benefit

Two percent of average base salary for the first twenty years of service, and 2.5% for all remaining years. Service before July 1, 1990 is credited at 2%.

Minimum Benefit: $25 per month for each year of credited service.

**(11) Early Retirement Eligibility**

Upon attaining age 55 (age 50 for members who participated before July 1, 1990) and meeting one of the following service requirements:

(a) Eight years of fully-paid membership service; or

(b) 15 years of fully-paid creditable service, the last five of which have been membership service; (if hired after June 30, 1975 a member needs eight years of fully-paid membership service); or

(c) Five years of fully-paid membership service and three years of fully-paid Alaska B.I.A. service; or

(d) 12 years of combined part-time and full-time membership service (at least one-half year each); or

(e) two years of fully-paid membership service if the member is vested in the Public Employees' Retirement System.

**(12) Early Retirement Benefit**

Actuarial equivalent of the normal retirement benefit based on service and salary to early retirement date.

**(13) Deferred Benefit**

Eligibility:

Refer to (9) *Normal Retirement Eligibility* and (11) *Early Retirement Eligibility*.

Withdrawal of employee contributions voids rights to benefits.

Amount: Refer to (10) *Normal Retirement Benefit* and (12) *Early Retirement Benefit*, above.

**(14) Indebtedness Owing At Retirement**

If on the date of appointment to retirement, a member has not paid the full indebtedness amount including interest to the retirement fund, the member's retirement benefit will be reduced for life by an amount equal to the actuarial equivalent of the outstanding indebtedness at the time of retirement.

**(15) Re-employment of a Retired Teacher**

If a retired member is reemployed in a position covered under the system, the retirement benefit will be suspended during the period of reemployment. During such period of reemployment, retirement contributions are mandatory.

A member who returns to TRS employment after retiring under the Retirement Incentive Program (RIP) will:

(a) forfeit the three years of incentive credits that were granted; and

(b) be indebted to the system in an amount equal to 110% of the benefits that were paid because of the member's participation in the RIP, including health insurance costs. The indebtedness is reduced by the amount that the member paid to participate.

**(16) Disability Retirement Benefits**

A disability retirement benefit may be paid if a member becomes permanently disabled before the normal retirement date and has at least five years of fully-paid membership service.

The benefit is equal to 50% of the disabled member's base salary immediately prior to becoming disabled. This benefit will be increased by 10% of the member's base salary for each minor child up to a maximum of 40%.

When the disabled member becomes eligible for normal retirement, the disability benefit will terminate and the member will be appointed to normal retirement. The normal retirement benefit will be computed as if the member had been in membership service during the period of disability.

**(17) Death Benefit Before Retirement**

**Nonoccupational Death**

Upon a nonoccupational death of a member who has made no supplemental contributions or who made supplemental contributions for less than one year and has completed less than one year of membership service, a lump-sum benefit shall be paid to the designated beneficiary.

The lump-sum benefit is the member's contribution account balance, including mandatory and supplemental contributions, indebtedness payments and interest earned.

If the member is in active service at the time of death and has completed at least one year of membership service, but is not vested, the beneficiary will also receive $1,000 plus $100 for each year of membership service (not to exceed $3,000). An additional $500 may be payable if the member is survived by dependent children.

Upon a nonoccupational death of a vested member or deferred vested member who has not made the required supplemental contributions, the surviving spouse may elect to receive the benefits described in the previous paragraph or a 50% joint and survivor option based on the member's average base salary and credited service at the time of death.

**Occupational Death**

Upon an occupational death of a member who has not made the required supplemental contributions, a monthly survivor's pension equal to 40% of the base salary at the time of death or disability, if earlier, may be paid to the spouse. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit based on the member's average base salary on the date of disability or death and credited service, including the period from the date of disability or death to the normal retirement date.

**(18) Death Benefits After Retirement**

If a member had received retirement benefits prior to his or her death, the designated beneficiary will receive the member's contribution account balance, minus any benefits already paid. However, if the member elected one of the joint and survivor options (50%, 66-2/3% or 75%) at retirement, an eligible spouse would receive a continuing monthly benefit for the rest of his or her life.

**(19) Survivor's Allowance - Supplemental Contributions**

If a member has made supplemental contributions for at least one year and dies while in membership service, or while receiving TRS disability benefits, or if the member has made supplemental contributions for at least five years and dies while on retirement or in deferred vested status, and is survived by dependent children, the surviving spouse and/or dependent children are entitled to a survivor's allowance.

The allowance for the spouse is equal to 35% of the member's base salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The survivor's allowance commences the month following the member's death. When there is no longer an eligible dependent child, the survivor's allowance ceases and a spouse's pension becomes payable.

**(20) Spouse's Pension - Supplemental Contributions**

If a member has made supplemental contributions for at least one year and dies while in membership service, or while receiving TRS disability benefits, or if the member has made supplemental contributions for at least five years and dies while on retirement or in deferred vested status, the surviving spouse is entitled to receive a spouse's pension.

The pension is equal to 50% of the retirement benefit that the deceased member was receiving or would have received if the member had been retired at the time of death. The spouse's pension commences the month following the member's death or cessation of the survivor's allowance. The pension ceases when the spouse dies.

**(21) Post-Retirement Pension Adjustment**

A post-retirement pension adjustment will be issued to an eligible benefit recipient each year if the consumer price index (CPI) increases during the prior calendar year. The adjustment to the benefit, excluding the cost-of-living allowance, will be:

(a) 75% of the CPI increase (not to exceed 9%) for recipients who are at least age 65 or on TRS disability; or

(b) 50% of the CPI increase (not to exceed 6%) for recipients who are at least age 60 but under 65, and for recipients who have been receiving benefits for at least eight years who are under age 60.

(Ad hoc PRPA's of up to 4% may be issued to retirees who were first hired before July 1, 1990 if the CPI has increased and the financial condition of the fund will permit an adjustment).

### (22) Cost-of-Living Allowance

Starting at age 65, a retired member who remains in Alaska is eligible for a cost-of-living allowance (COLA) equal to 10% of the base retirement benefit. Members who were first hired before July 1, 1990 or who are receiving disability benefits are eligible for COLA, regardless of age.

## PARTICIPANT CENSUS INFORMATION AS OF JUNE 30

| Active Members | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|
| (1) Number | 8,824 | 7,797 | 8,218 | 8,527 | 8,586 |
| (2) Number Vested | 4,233 | 4,196 | 4,053 | 4,787 | 4,890 |
| (3) Average Age | 40.48 | 41.09 | 41.34 | 41.82 | 42.21 |
| (4) Average Credited Service | 9.81 | 10.45 | 10.46 | 10.61 | 10.62 |
| (5) Average Annual Salary | $ 44,440 | $ 44,710 | $ 43,966 | $ 44,596 | $ 45,388 |
| **Retirees and Beneficiaries** | | | | | |
| (1) Number | 2,098 | 2,376 | 2,972 | 3,098 | 3,184 |
| (2) Average Age | 63.18 | 62.83 | 61.41 | 61.85 | 62.45 |
| (3) Average Monthly Benefit: | | | | | |
| Base | $ 1,205 | $ 1,304 | $ 1,460 | $ 1,476 | $ 1,491 |
| C.O.L.A. | $ 79 | $ 87 | $ 102 | $ 102 | $ 100 |
| P.R.P.A. | $ 258 | $ 268 | $ 208 | $ 234 | $ 262 |
| **Total** | **$ 1,542** | **$ 1,659** | **$ 1,770** | **$ 1,812** | **$ 1,853** |
| **Vested Terminations** | | | | | |
| (1) Number | 481 | 777 | 408 | 508 | 816 |
| (2) Average Age | 47.74 | 47.92 | 44.26 | 45.11 | 46.75 |
| (3) Average Monthly Benefit | $ 1,178 | $ 1,391 | $ 847 | $ 957 | $ 1,244 |
| **Non-Vested Terminations With Account Balances** | | | | | |
| (1) Number | 869 | 1,529 | 938 | 943 | 985 |
| (2) Average Account Balance | $ 8,356 | $ 9,421 | $ 9,773 | $ 9,765 | $ 10,244 |

# STATISTICS ON ALL RETIREES AS OF JUNE 30

| Service Retirements | | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|
| (1) | Number, Prior Year | 1,855 | 1,922 | 2,194 | 2,760 | 2,870 |
| (2) | Net Change During Year | 67 | 272 | 566 | 110 | 78 |
| (3) | Number, This Year | 1,922 | 2,194 | 2,760 | 2,870 | 2,948 |
| (4) | Average Age At Retirement | 56.47 | 56.06 | 55.11 | 54.91 | 54.80 |
| (5) | Average Age Now | 64.01 | 63.52 | 61.84 | 62.25 | 62.84 |
| (6) | Average Monthly Benefit | $ 1,549 | $ 1,672 | $ 1,793 | $ 1,834 | $ 1,879 |
| **Surviving Spouse's Benefits** | | | | | | |
| (1) | Number, Prior Year | 64 | 69 | 70 | 85 | 103 |
| (2) | Net Change During Year | 5 | 1 | 15 | 18 | 5 |
| (3) | Number, This Year | 69 | 70 | 85 | 103 | 108 |
| (4) | Average Age At Retirement | 54.52 | 53.93 | 55.83 | 55.56 | 55.76 |
| (5) | Average Age Now | 63.98 | 63.49 | 66.74 | 67.26 | 67.79 |
| (6) | Average Monthly Benefit | $ 833 | $ 750 | $ 708 | $ 738 | $ 794 |
| **Survivor's Benefits** | | | | | | |
| (1) | Number, Prior Year | 38 | 34 | 32 | 36 | 31 |
| (2) | Net Change During Year | (4) | (2) | 4 | (5) | 0 |
| (3) | Number, This Year | 34 | 32 | 36 | 31 | 31 |
| (4) | Average Age At Retirement | 35.29 | 39.04 | 36.15 | 35.42 | 35.42 |
| (5) | Average Age Now | 43.08 | 46.77 | 44.66 | 43.73 | 44.73 |
| (6) | Average Monthly Benefit | $ 1,584 | $ 1,746 | $ 1,513 | $ 1,652 | $ 1,661 |
| **Disabilities** | | | | | | |
| (1) | Number, Prior Year | 65 | 73 | 80 | 91 | 94 |
| (2) | Net Change During Year | 8 | 7 | 11 | 3 | 3 |
| (3) | Number, This Year | 73 | 80 | 91 | 94 | 97 |
| (4) | Average Age At Retirement | 44.55 | 44.00 | 44.39 | 44.22 | 44.18 |
| (5) | Average Age Now | 50.64 | 49.93 | 49.87 | 49.71 | 50.14 |
| (6) | Average Monthly Benefit | $ 2,003 | $ 2,075 | $ 2,125 | $ 2,267 | $ 2,304 |
| **Total Number of Retirees** | | 2,098 | 2,376 | 2,972 | 3,098 | 3,184 |

# ACTUARIAL BASIS

## Valuation of Liabilities

**A. Actuarial Method -** Projected Unit Credit. Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued liability is amortized over 25 years. Any funded surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An **Accrued Liability** is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The **Unfunded Liability** at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the **Past Service Cost.**

The **Normal Cost** is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

**B. Actuarial Assumptions -**

| | |
|---|---|
| 1. Interest | 9% per year, compounded annually, net of expenses. |
| 2. Salary Scale | 6.5% per year for the first five years of employment and 5.5% per year thereafter. |
| 3. Health Cost Inflation | 9% per year. |
| 4. Mortality | 1984 Unisex Pension Mortality Table set back 1-1/2 years. All deaths are assumed to result from nonoccupational causes. |
| 5. Turnover | Based upon the 1981-85 actual total turnover experience. (See Table 1). |
| 6. Disability | Incidence rates in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. |

| | |
|---|---|
| 7. Retirement Age | Retirement rates based on actual experience in accordance with Table 3. |
| 8. Spouse's Age | Wives are assumed to be four years younger than husbands. |
| 9. Dependent Children | Benefits to dependent children have been valued assuming members who are not single have one dependent child. |
| 10. Contribution Refunds | 100% of those terminating after age 35 with eight or more years of membership service, or with at least five years of membership service and at least three years of B.I.A. service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded. |
| 11. C.O.L.A. | Of those benefit recipients who are eligible for the C.O.L.A., 54% are assumed to remain in Alaska and receive the C.O.L.A. |
| 12. Sick Leave | 4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired. |
| 13. Expenses | Expenses are covered in the interest assumption. |

**Valuation of Assets**

Based upon the five-year average ratio between actuarial and book values of the System's assets. The actuarial value of assets equals the market value, except that fixed income investments are carried at book value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by Coopers & Lybrand. Valuation assets cannot be outside the range of book and actuarial values.

**Valuation of Medical Benefits**

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) were assumed such that the total rate for all retirees equals the present premium rate. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY91 and FY92, the pre-65 monthly premium is \$318.94 and the post-65 premium is \$121.50, based on a total blended premium of \$243.98. These rates and the pre-65/post-65 split were provided by Deloitte & Touche.

## TABLE 1

## ALASKA TRS
## TOTAL TURNOVER ASSUMPTIONS

**Select Rates of Turnover During the First 10 Years of Employment**

| Year of Employment | Rate |
|---|---|
| 1 | .17 |
| 2 | .15 |
| 3 | .12 |
| 4 | .12 |
| 5 | .11 |
| 6 | .09 |
| 7 | .07 |
| 8 | .07 |
| 9 | .07 |
| 10 | .06 |

**Ultimate Rates of Turnover After the First 10 Years of Employment**

| Ages | Rate |
|---|---|
| 20-39 | .03 |
| 40+ | .02 |

# TABLE 2

## ALASKA TRS DISABILITY RATES
## ANNUAL RATES PER 1,000 EMPLOYEES

| Age | Rate |
|---|---|
| 20 | .42 |
| 21 | .43 |
| 22 | .43 |
| 23 | .44 |
| 24 | .44 |
| 25 | .45 |
| 26 | .46 |
| 27 | .47 |
| 28 | .48 |
| 29 | .49 |
| 30 | .50 |
| 31 | .52 |
| 32 | .53 |
| 33 | .54 |
| 34 | .56 |
| 35 | .58 |
| 36 | .59 |
| 37 | .62 |
| 38 | .64 |
| 39 | .67 |
| 40 | .69 |
| 41 | .72 |
| 42 | .76 |
| 43 | .82 |
| 44 | .89 |
| 45 | .97 |
| 46 | 1.06 |
| 47 | 1.15 |
| 48 | 1.24 |
| 49 | 1.34 |
| 50 | 1.44 |
| 51 | 1.56 |
| 52 | 1.72 |
| 53 | 1.91 |
| 54 | 2.13 |
| 55 | 2.40 |
| 56 | 2.75 |
| 57 | 3.20 |
| 58 | 3.66 |
| 59 | 4.32 |
| 60 | 5.06 |
| 61 | 5.85 |
| 62 | 6.78 |
| 63 | 7.83 |
| 64 | 8.94 |

# TABLE 3

## ALASKA TRS
## RETIREMENT RATES

| Age at Retirement | Retirement Rate |
|---|---|
| 50 | .063 |
| 51 | .063 |
| 52 | .063 |
| 53 | .063 |
| 54 | .063 |
| 55 | .117 |
| 56 | .117 |
| 57 | .117 |
| 58 | .117 |
| 59 | .117 |
| 60 | .260 |
| 61 | .180 |
| 62 | .210 |
| 63 | .240 |
| 64 | .270 |
| 65 | .540 |
| 66 | .820 |
| 67 | 1.000 |

For ages less than 50, teachers are assumed to retire two years after the earliest age they are eligible to retire.

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# INVESTMENT SECTION

# ORGANIZATION

State of Alaska
Department of Revenue
P.O. Box 110400, Juneau, Alaska 99811
(907) 465-2300

## OUTSIDE MANAGERS

**Domestic Equities**

(Fred) Alger Management
*New York, New York*
IDS Equity Advisors
*Minneapolis, Minnesota*
Invesco Capital Management, Inc.
*Atlanta, Georgia*
Lehman Ark Management
*New York, New York*
Miller, Anderson & Sherrerd
*West Conshohocken, Pennsylvania*
State Street Bank & Trust Co.
*N. Quincy, Massachusetts*
United Capital Management
*Denver, Colorado*

**Equity Real Estate Managers/Advisors**

Aetna Capital Management
*Hartford, Connecticut*
Equitable Real Estate Investment Management, Inc.
*Irvine, California*
John Hancock Properties, Inc.
*Boston, Massachusetts*
JMB Institutional Realty Corporation
*Chicago, Illinois*
Karsten Realty Advisors
*Los Angeles, California*
J.P. Morgan Investment Management, Inc.
*New York, New York*
Sentinel Real Estate Corporation
*Bellevue, Washington*

**International Equities**

Citibank Investment Management
*London*
J.P. Morgan Investment
*London*

## INVESTMENT OPERATIONS ADVISORY COMMITTEE

John W. English,Chairman
*Ford Foundation, Vice-Pres. & Chief Inv. Off.*
Mark T. Finn,
*Delta Financial, Inc., President*

*(A third position is currently unfilled)*

## CONSULTANTS

**Performance Measurement**
SEI Funds Evaluation Services
*San Francisco, California*

**Real Estate Consultants**
Institutional Property Consultants, Inc.
*Atlanta, Georgia*
*San Diego, California*

**Domestic Equity Evaluation**
SEI Funds Evaluation Services
*San Francisco, California*

**International Equity Evaluation**
The WM Company
*Edinburgh, Scotland*

### INDEPENDENT AUDITORS

KPMG Peat Marwick
*Anchorage, Alaska*

### GLOBAL MASTER CUSTODIAN

State Street Bank & Trust Co.
*N. Quincy, Massachusetts*

## *STAFF*

**Commissioner**
Darrel J. Rexwinkel, Acting

**Deputy Commissioner**
Darrel J. Rexwinkel

**Chief Investment Officer**
Steven R. Stein

**Investment Officers**
Michael S. Cheung, Fixed Income
Martin L. Lentz, Real Estate

**Cash Management**
Vernon B. Voss

**Comptroller**
Brian C. Andrews

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX S
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300
TELEFAX: (907) 465-2389

December 11, 1992

To the Beneficiaries and Participating Employers
Alaska Teachers' Retirement System

The State of Alaska, by itself and on behalf of participating employers, promises each employee participating in the Teachers Retirement System (TRS) a pension benefit based on years of service to its citizens. The employees deserve a well funded system to insure that money will be available to pay their benefits when due.

Funding goals and employer contribution rates are determined by the TRS retirement board (Board). The employee rate is fixed by statute at 8.65%. The employer rate set by the Board with advice from a consulting actuary is the rate needed to achieve funding goals. This note is smoothed over a three year average. The smoothed employer rate is now 11.87% and will be 15.69% for FY 93. The combined rates result in substantial contributions to the Teachers Retirement System Trust Fund (Fund). Even so, over the past few years investment earnings have been significantly more than contributions. Without these earnings, the employer rate would be substantially higher. The result would be less money for benefits or other important public needs.

My job and that of Treasury Division is to make sure that moneys in the Fund are properly invested to maximize earnings consistent with preservation of principal. As fiduciaries we must manage the Fund in the best financial interest of the beneficiaries (employees and retirees). Successful investment performance helps provide a well funded plan to ensure benefit payments to retirees. Successful performance also reduces the burden on the citizens of the State.

The investments of the Fund continue to increase as a result of positive returns. For the five years ended June 30, 1991, the Fund earned an average of 9.0%. This means the Fund achieved the 9.0% rate of return adopted by the TRS board for actuarial funding purposes. This is important as it maintains a high funding ratio. A high funding ratio ensures the Funds ability to make benefit payments when due.

According to a survey by the National Conference of State Legislatures published in 1990, the average funding ratio for state retirement systems with assets between $1 billion and $5 billion was 72.5%. The Alaska TRS far exceeded this average with a funding ratio of 87.7% at June 30, 1990. The ratio was 95.0% at June 30, 1989 but was driven down due to the benefit increases granted in 1990. My goal is to manage the Funds investments so that investment earnings make a positive contribution toward achieving a 100% funded status.

To help insure the highest level of future investment earnings consistent with appropriate risk levels, important fund management enhancements are being implemented. A brief description of each follows.

- An Investment Operations Advisory Committee was established in late 1990. This committee is very important to me and the beneficiaries. The members have been asked to be very critical in their review and frank in their observations. The committee is comprised of three national experts in large pension trust fund investments. They assemble on a quarterly basis to review Treasury's pension trust fund investment operations. Based on this review they offer advice and make recommendations to me and my staff.



04-D2LH

- A global custodian has been retained to maintain custody of all assets. This new relationship is very important to the orderly conduct of our investment operations. It will greatly assist with performance measurement and other investment analytics.

- A securities lending program was implemented in August 1991. This program has minimal risk and should return in excess of $1 million in additional earnings to the trust funds.

- Treasury Division has been directed to meet with Permanent Fund Corporation staff and participate in their meetings where appropriate to exchange information. The Permanent Fund Corporation and the State of Alaska, Treasury Division, manage two of the largest public funds in the United States. We have every reason to work together in a spirit of friendly competition.

- A seven-member investment council was being established by regulation. This council was to review and approve investment policies, strategy, and management operations. The council would have received advice from Treasury staff, the Investment Operations Advisory Committee, and other professional investment advisors and consultants. The council would act in a manner similar to an investment board. Adoption of investment council regulations was postponed to accommodate a legislative alternative. The alternative is to create, by statute, an eight member fiduciary investment board. The investment board will manage investments of the pension trust fund for the best financial interest of the beneficiaries on a shared fiduciary basis. Beneficiaries will have equal representation on the board. Department of Revenue, Treasury Division, will be staff to the board.

- A proposal process is being finalized to select a firm to provide investment advisory services. The primary purpose is to select a firm to assist with design of investment policies and objectives and to perform asset allocation modeling. Estimates have placed the proportion of investment performance attributable to asset allocation as high as 90%. State statutes recognize that this is a very important pension fund investment function. By statute, the commissioner of revenue, in managing retirement system trust funds, must consider the status of the funds investments and the systems liabilities on both a current and probable future basis.

My responsibility and goal is to manage the Fund in the best interest of the beneficiaries. Programs in place and enhancements described above will help accomplish this goal. The result will be twofold. First, beneficiaries will have a well funded plan and can be secure in their retirement pension benefits. Second, benefits will be provided at the least possible cost to the citizens. Finally, investment earnings will be maximized consistent with preservation of principle in a controlled risk environment.

Sincerely,

Darrel J. Rexwinkel
Acting Commissioner

DJR/mem

# 1991 ANNUAL FINANCIAL REVIEW

### Creation and Purpose

The Teachers' Retirement System Trust Fund (Fund) is established by Alaska Statute 14.25.170(5). The Fund holds the assets of the Teachers' Retirement System (TRS). These assets are comprised of investments of various kinds, predominantly stocks, bonds, and real estate. The Fund was created to pay retirement benefits to employees participating in the retirement plan administered under TRS. The retirement plan is a defined-benefit plan in which benefit levels for each employee are determined by length of employment and highest average salary. The plan is a joint-contributory plan in which both the employee and the employer make continuing contributions, calculated as a percentage of current salary. Employee contribution percentages are fixed by statute. Employer contributions are determined annually by the TRS board based on evaluations of the Fund by a consulting actuary. The plan is considered to be perpetual because it applies to future as well as current employees and because the employers (state and municipal governments or political subdivisions) are perpetual in nature.

Participating employers are bound by the Alaska Constitution to pay the plan's benefits. Although benefits could be paid on a pay-as-you-go basis, the existence of a Fund serves two purposes. For the employer, it distributes contributions over an employees' years of service. For the employee, it provides a form of insurance that employers will meet their obligations.

## Fiscal 1991 Annual Financial Results

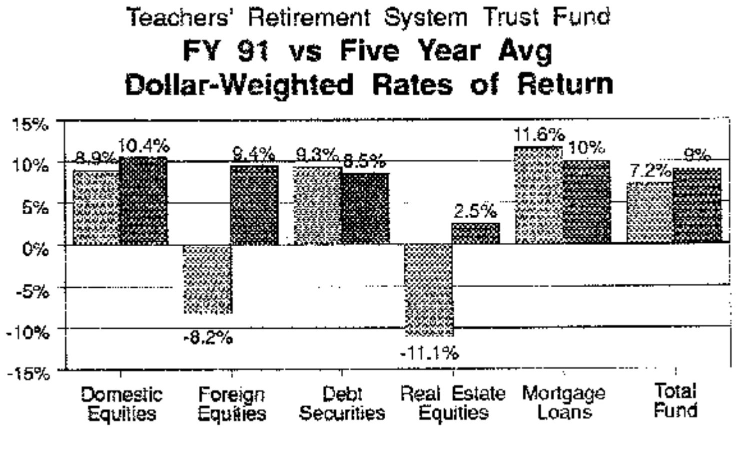
### Market Environment

The twelve month period ending June 30, 1991 was a hectic one economically, politically and in the investment markets. The dominant issues were the invasion of Kuwait, subsequent war and recessions in several major countries.

At the end of fiscal 1991 (June 30, 1991), the U.S. economy began to show signs of a gradual recovery as it responded to easier monetary policy previously undertaken by the Federal Reserve Bank. Reviving activity was reflected in a growing array of economic reports. However, this recovery promises to be different from previous economic cycles. Significantly, inventory rebuilding and bank credit support have been less evident. The timing, magnitude, and nature of this economic recovery are all critical variables in the outlook for inflation.

It was a good year for fixed-income investments such as bonds where prices rose with declining interest rates. The Salomon Brothers Broad Index produced a return of 10.8%. Bond market participants spent the first half of FY 91 assessing the arrival of the recovery, and then turned their attention to gauging its strength. The yield curve also steepened during the year. At year end, the yield spread between two year treasury and thirty year treasury bonds had increased by half to 150 basis points. Long rates increased due to supply and inflation concerns while short rates benefitted from Fed easing and the unlikely prospect of Fed tightening.

Domestic equities closed out the year on a negative note with most indices off between 4% and 6% during June. That consolidation was not unusual in the context of stocks which gained more than 25% between November 1990 and March 1991. For the fiscal year, the Standard & Poor's 500 index posted a total return of 7.4%. Real estate equity returns (MCREIF index) were -1.2%, and international equity market returns were also negative, with the EAFE index at -11.5%.



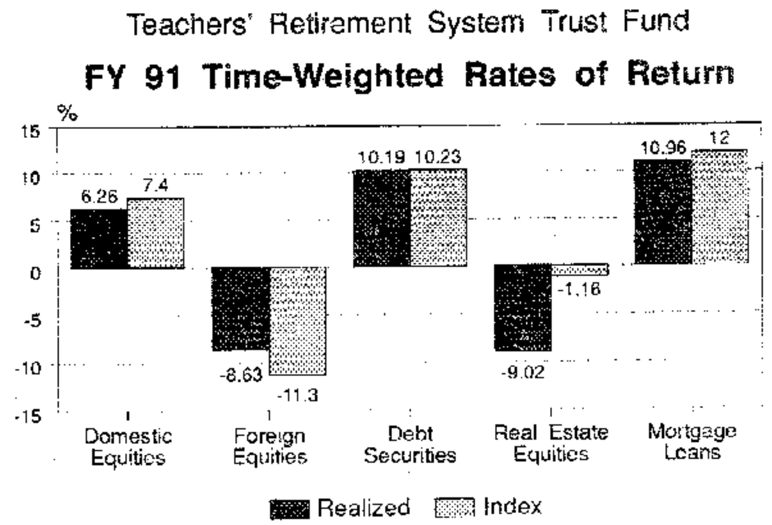

Dollar-weighted represents economic returns to the Fund and should not be used for performance measurements.

**Total Fund Returns**

The Fund earned $127.6 million in realized net income in fiscal 1991. Realized net income is cash actually received by the Fund, such as dividends paid on stocks, interest paid on bonds, fees and other income earned on equity real estate, and realized capital gains. For the year, realized capital gains were $17.5 million.

Total return measures realized net income plus the net change in unrealized gains and losses. On a total return basis, the Fund earned $124.1 million in fiscal 1991 as compared to $156.3 million in fiscal 1990. This amount includes both the realized income of $127.6 million and a $3.6 million net increase in unrealized gains. Although the net change in unrealized gains from July 1, 1990 to June 30, 1991 was modest, monthly changes during that period were often quite dramatic and indicated a high degree of volatility.

The total dollar-weighted rate of return for the Fund for fiscal 1991 was 7.2%. Of the Fund's major security types, real estate mortgages contributed the highest economic rate of return, followed by fixed income securities, and then the domestic equities. International equities and real estate equities had negative economic rates of return. The five year annual average ending June 30, 1991 was 9.0% which equals the actuarial assumption.




Indices: S&P 500, EAFE, Lehman Gov Corp, NCREIF, Lehman GNMA

Source - SEI Corporation
Performance Measurement Consultants

A dollar-weighted return represents an economic return to the Fund and should not be used for performance measurement as it is not time weighted. Dollar-weighted returns reflect the benefits or detriments of cash flows in a fund. They show the net economic gain or loss. Time-weighted rates are calculated for short periods of time and then linked together. These returns are not influenced by the timing of cash flows to the manager. Since the manager does not decide the timing of cash flows into the Fund, time-weighted rates are useful for manager evaluation. Market indices are calculated on a time-weighted basis.

# ASSET ALLOCATION

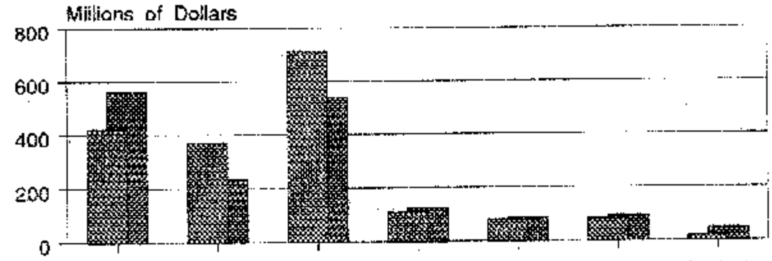
**Marketable Debt Securities**

The Fund is comprised of 44% marketable debt securities which are managed in-house. The Fund's marketable debt securities portfolio began the year heavily weighted to U.S. government bonds. These were the best performing sectors of the debt market in the first six months of the year. During the year funds were moved from governments to corporates, benefitting the portfolio since corporates outperformed governments in the last half of the year ending June 30. During fiscal 1991, the Fund was a net seller of $12.0 million of marketable debt securities.

The portfolio holds bonds with a very high quality rating. Nearly half of the Fund consists of U.S. Treasury bonds, notes, and high-grade corporate debt securities. These fixed-income investments earn interest which represents the bulk of the cash required each year for payments to beneficiaries.

Teachers' Retirement System Trust Fund

**Asset Allocation**



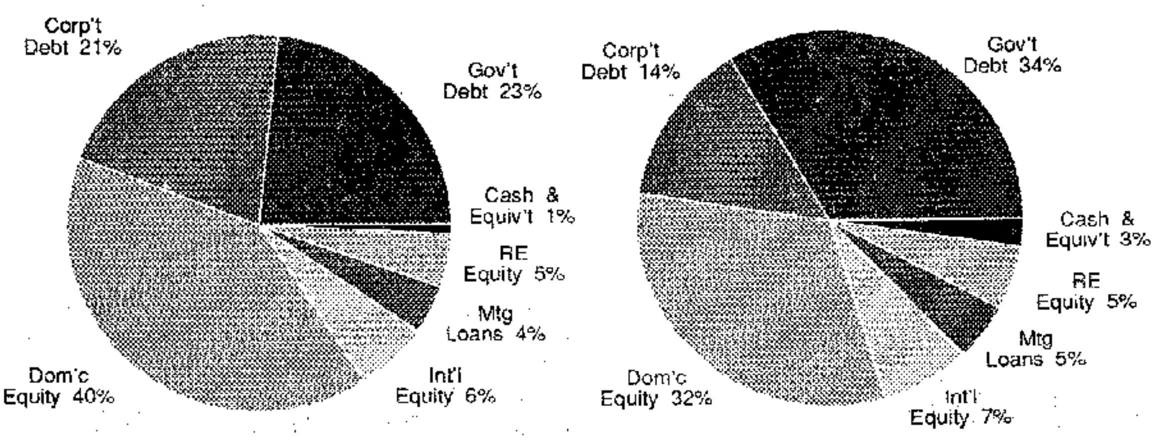

| June 30 | Gov't Debt | Corp't Debt | Dom'c Equity | Int'l Equity | Mtg Loans | RE Equity | Cash & Equiv't |
|---|---|---|---|---|---|---|---|
| 1991 | 420.9 | 372.4 | 715.3 | 109.9 | 78.4 | 80.8 | 17.2 |
| 1990 | 565 | 234.3 | 539.7 | 123.5 | 85.1 | 91.7 | 43.7 |

1991 1990

Teachers' Retirement System Trust Fund

**Asset Allocation**

**June 30, 1991** **June 30, 1990**



Interest earned on marketable debt securities in fiscal 1991 totaled $72.1 million. Marketable debt ended the year with $5.4 million in realized gains. This portfolio earned a total return in fiscal 1991 of 9.3%.

At the end of the fiscal year, the weighted average life of the marketable fixed income securities was 11 years, 1 month, compared with 11 years, 5 months, a year earlier. The maturities of the Fund's marketable debt portfolio is longer than many other corporate or state portfolios. During a year when interest rates decline, long maturities have a positive effect on returns.

**Domestic Equities**

The first six months were spent anticipating a recession in the domestic equity market, while the second half was spent anticipating a recovery. There were significant changes in the types of stocks that did well during the year.

The Fund made additional investments in a domestic equity pool in fiscal 1991, adding a net $118.8 million to the equity holdings. Management of the domestic equity pool is distributed among six active managers and one index manager. Under their management the market value of the Fund's stock holdings increased by $56.8 million to total $715.3 million at year-end. Domestic equity holdings represent 40% of the Fund. On a dollar-weighted basis, the Fund's domestic equity holdings produced a return of 8.9% for fiscal 1991.

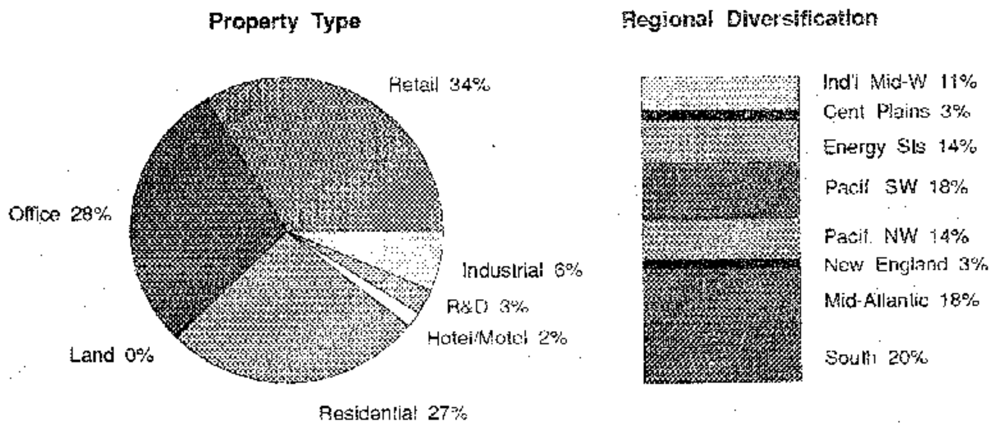
**International Equities**

International equities comprise 6% of the Fund. There were no contributions made by the Fund to the international equity portfolio for fiscal 1991. The international equity portfolio is managed by two active managers. The market value of international equities decreased by $13.5 million, to total $109.9 million at year-end. On a dollar-weighted basis the international equity portfolio had a return of -8.2%.

Alaska Retirement Trust Funds

**Real Estate Equities**

June 30, 1991



The strength of the U.S. dollar after the Middle East war was a significant factor reducing returns from investments outside the U.S. Additionally, the impact of the war and recession in several countries reduced equity returns. For the year, investments cited in Japan and Germany had substantial negative returns.

**Real Estate Equities**

The real estate equity portfolio is a diversified property portfolio of commingled funds. The market value of real estate equities decreased by $10.8 million to total $80.8 million at fiscal year-end. The real estate investments comprise 5% of the Fund, returning -11.1% on a dollar-weighted basis.

These institutional-grade funds are managed by seven professional real estate investment firms. The retirement trust funds invested in these portfolios principally in 1980 and 1984. No new investments have taken place since 1987.

The real estate industry is in one of the most difficult periods in decades. In general, real estate markets are suffering from over-building in virtually all market sectors. The good news is that new construction across the country is virtually at a standstill. There is little question that time will be required to absorb excess capacity.

In these difficult and challenging times, focusing on fundamental strengths of real estate investing is important. Attributes that brought pension funds to this asset class in the first place are as valid as ever. Institutional-grade real estate performs competitively with other asset classes, is low in volatility, and responds well to a variety of economic climates. As the economy improves and excess capacity is absorbed, this asset also should improve in overall performance.

The real estate equity portfolio is positioned to realize future returns quicker than the average portfolio. This is because the Fund is heavily weighted in retail and multifamily and under-weighted in office. Office buildings have been depressed and this sector is where the Fund suffered substantial losses in 1991.

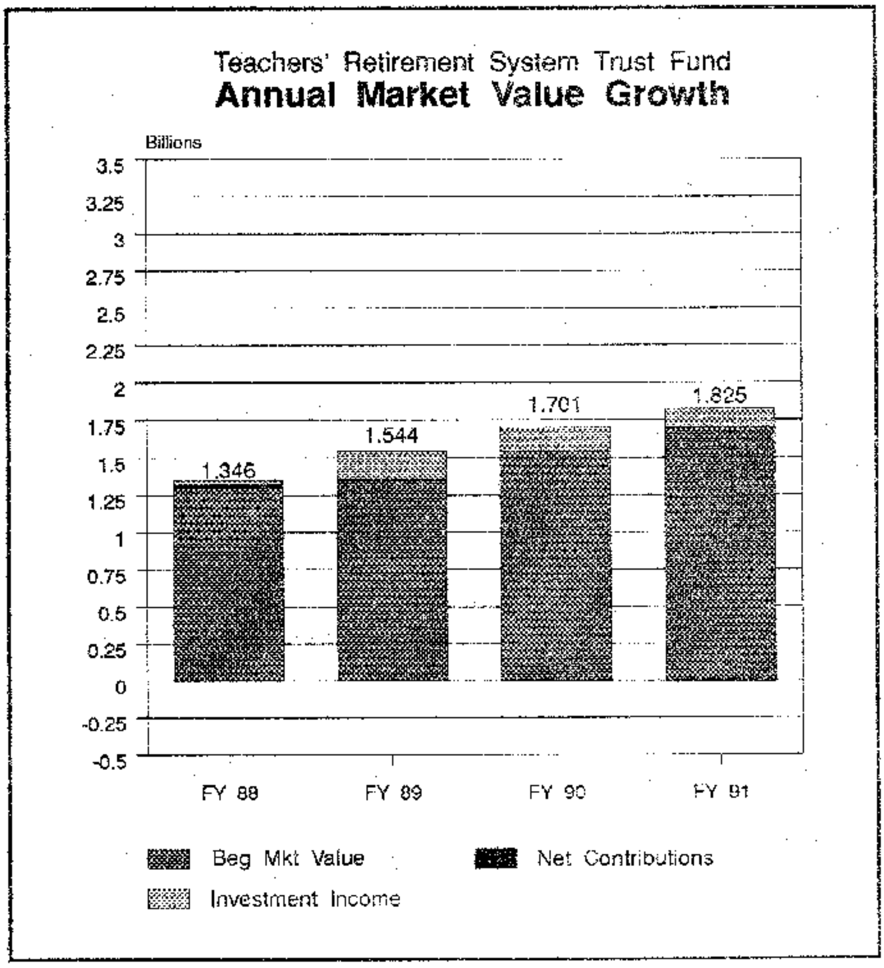
Today's economy offers limited real estate investment opportunities. The Fund may participate in these opportunities on a selective basis. Prior to 1988, the Fund was limited to commingled funds where the manager has sole control over investments. The Fund may now invest in real estate on a direct basis.

**Real Estate Mortgages**

The Fund continued its investment policy of not making direct residential and commercial real estate loans for fiscal 1991 due to the low liquidity, high risk and administrative expense of this type of investment. The market value of real estate loans totaled $78.4 million at year-end representing 4% of the total Fund. This portion of the Fund's portfolio returned 11.6% on a dollar-weighted basis for the year ending June 30, 1991.

# CONCLUSION

The assets of the Fund came into being and have grown because employers and employees have paid more into the Fund in the form of contributions than has been paid out in benefits. Investment returns have significantly increased the Fund's assets. Contributions currently exceed benefits by design, in order to make benefit payments that can reasonably be expected in the future. These projections of future benefit payments and investment earnings are main factors used by the actuary in determining employer contribution rates. Other important factors are the amount of assets in the Fund and expected cost of living increases. With the programs outlined in the Commissioner's message, future investment returns should exceed expectations.



# INDEPENDENT AUDITORS' REPORT

State of Alaska
Department of Revenue
Division of Treasury:

We have audited the accompanying balance sheets of the Teachers' Retirement Trust Fund (Fund) as of June 30, 1991 and 1990, and the related statements of investment income and changes in fund balance restricted for beneficiaries, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, the financial statements of the Teachers' Retirement Trust Fund represent only the investment portfolio of the State of Alaska Teachers' Retirement System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement Trust Fund as of June 30, 1991 and 1990, and the results of its investment operations and changes in fund balance, and its cash flows for the years then ended in conformity with generally accepted acocunting principles.

September 6, 1991

*KPMG* Peat Marwick
Certified Public Accountants
601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

KPMG Peat Marwick

Member Firm of
Klynveld Peat Marwick Goerdeler

# BALANCE SHEETS

| | 1991 | - June 30 - (000's omitted) | 1990 |
|---|---|---|---|
| **Assets** | | | |
| Investments, at market: | | | |
| Marketable securities: | | | |
| U.S. government debt | $420,898 | | $564,959 |
| Corporate bonds | 372,433 | | 234,265 |
| Domestic equity pool | 715,287 | | 539,685 |
| International equities | 109,947 | | 123,496 |
| Total marketable securities | 1,618,565 | | 1,462,405 |
| Mortgage loans | 82,941 | | 90,310 |
| Allowance for loan losses | (4,574) | | (5,170) |
| Net mortgage loans | 78,367 | | 85,140 |
| Real estate equities | 80,828 | | 91,676 |
| Total investments | 1,777,760 | | 1,639,221 |
| Receivables: | | | |
| Interest and dividends | 17,507 | | 16,924 |
| Due from general investment fund | 1,129 | | 831 |
| Total receivables | 18,636 | | 17,755 |
| Cash and cash equivalents | 17,200 | | 43,726 |
| Total assets | $1,813,596 | | $1,700,702 |
| **Fund Balance** | | | |
| Fund balance restricted for beneficiaries | $1,813,596 | | $1,700,702 |

*See accompanying notes to financial statements*

## STATEMENTS OF INVESTMENT INCOME AND CHANGES IN FUND BALANCE RESTRICTED FOR BENEFICIARIES

| | 1991 | Year Ended - June 30 - (000's omitted) | 1990 |
|---|---|---|---|
| Investment Income: | | | |
| Income: | | | |
| Interest: | | | |
| Marketable securities | $ 72,071 | | $ 77,844 |
| Mortgage loans | 7,252 | | 7,487 |
| Total interest | 79,323 | | 85,331 |
| Dividends: | | | |
| Domestic equity pool | 22,098 | | 17,595 |
| International equities | 3,717 | | 2,854 |
| Real estate equities | 4,412 | | 4,975 |
| Total dividends | 30,227 | | 25,424 |
| Total income | 109,550 | | 110,755 |
| Reduction of allowance for loan losses | 596 | | 247 |
| Net income | 110,146 | | 111,002 |
| Net realized and unrealized gains on investments: | | | |
| Realized: | | | |
| Marketable debt securities | 5,429 | | 154 |
| Domestic equity pool | 10,955 | | 27,063 |
| International equities | 1,115 | | 8,503 |
| Net realized gains | 17,499 | | 35,720 |
| Change in unrealized market appreciation | (3,577) | | 9,544 |
| Net realized and unrealized gains | 13,922 | | 45,264 |
| Total investment income | 124,068 | | 156,266 |
| Beginning fund balance restricted for beneficiaries | 1,700,702 | | 1,544,000 |
| Net contributions (withdrawals) | (11,174) | | 436 |
| Ending fund balance restricted for beneficiaries | $1,813,596 | | $1,700,702 |

*See accompanying notes to financial statements*

## STATEMENTS OF CASH FLOWS

| | 1991 | Year Ended - June 30 - (000's omitted) | 1990 |
|---|---|---|---|
| Investment operations: | | | |
| Total investment income | $ 124,068 | | $ 156,266 |
| Adjustments: | | | |
| Net realized gains | (17,499) | | (35,720) |
| Change in unrealized market appreciation | 3,577 | | (9,544) |
| Amortization | 175 | | 1,221 |
| Increase (decrease) in interest and dividends receivable | (583) | | 313 |
| Reduction of allowance for loan losses | (596) | | (247) |
| Net cash provided by investment operations | 109,142 | | 112,289 |
| Investing activities: | | | |
| Purchase of marketable securities | (355,285) | | (602,912) |
| Sales and maturities of marketable securities | 367,273 | | 579,869 |
| Aquisition of mortgage loans and real estate equities | (10,373) | | (8,827) |
| Net increase in book value of domestic equity pool | (140,946) | | (60,190) |
| Mortgage loan principal payments and proceeds from real estate equities | 15,135 | | 11,618 |
| Net cash used in investing activities | (124,196) | | (80,442) |
| Financing activities - net withdrawals from benefit system | (11,472) | | (237) |
| Net increase (decrease) in cash and cash equivalents | (26,526) | | 31,610 |
| Cash and cash equivalents at beginning of year | 43,726 | | 12,116 |
| Cash and cash equivalents at end of year | $ 17,200 | | $ 43,726 |

*See accompanying notes to financial statements*

# NOTES TO FINANCIAL STATEMENTS - JUNE 30, 1991 AND 1990
(000's omitted)

## 1) Accounting Entity

The Teachers' Retirement System Trust Fund (Fund) represents the investment portfolio of the State of Alaska Teachers' Retirement System (TRS). TRS is a multiple-employer cost-sharing defined benefit, joint contributory system established for the payment of retirement, disability and death benefits to or on behalf of qualified teachers employed by the state, municipalities, school districts, or other political subdivisions within the state. These financial statements are those of the Fund and not TRS taken as a whole. The Commissioner of Revenue is the fiduciary and has the statutory authority to invest the moneys of the Fund. This authority is delegated to specific investment officers of the Treasury Division.

Alaska Statutes 14.25.180 and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large trust portfolios. The Treasury Division has contracted the management of certain investment securities to selected external managers. Specifically, the domestic equity pool, international equities and real estate equities are managed by external management companies.

## (2) Summary of Significant Accounting Policies

### Investment Presentation

The market value of marketable securities is determined at the end of each month by the custodial agents. The agents' determination of market values involves, among other things, using pricing services or prices quoted by independent brokers. The market value of the mortgage loans is determined by adjusting purchased yields to the current secondary mortgage market conditions established by the MGIC Investment Corporation.

A mortgage loan loss provision has been provided to allow for potential problem loans. The mortgage loan loss provision has been determined by analyzing various characteristics (i.e., aging) of the portfolio.

The market values of real estate equities are valued by the various companies managing those funds.

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis. In determining gains and losses, the cost of securities sold is determined on a specific identification basis.

Interest income, including amortization of premium and discount, is accrued monthly. Dividend income on domestic equity securities is accrued on ex-dividend date.

Dividend income on international equities is recognized upon notification from the custodian.

**Net Contributions**

Net contributions represent contributions from employers and employees, net of benefits paid to TRS participants. Net contributions are recorded on a cash basis according to when contributions are received, and benefits are paid by the State of Alaska, Department of Administration, Division of Retirement and Benefits.

**Administrative and Other Expenses**

All expenses, including investment management costs, are charged to appropriations of Fund assets and are therefore not deducted from investment income of the Fund.

**Statement of Cash Flows**

For purposes of the statement of cash flows, Treasury Division considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The cash flow statement is presented to reflect the activity resulting in a change in cash and cash equivalents. Total investment income is adjusted for realized gains or losses because gross proceeds are shown under sales and maturities of marketable securities.

**(3) Domestic Equity Pool**

The Fund, along with several other State of Alaska funds, has an investment in a domestic equity pool. The majority of the domestic equity pool is comprised of common stock with available cash balances invested in short-term issues. All accrued income and realized gains and losses are allocated monthly to each participating fund on a pro rata ownership basis. Income which is received by the domestic equity pool is distributed monthly in cash to each participating fund, first to accrued income allocated to any withdrawal by a participating fund, and second, in proportion to each fund's ownership of remaining accrued income.

At June 30, 1991 and 1990, the Fund's investment in the domestic equity pool is comprised of:

| | 1991 | 1990 |
|---|---|---|
| Domestic equities, at market | $ 672,784 | $ 501,414 |
| Interest and dividends receivable | 2,061 | 1,504 |
| Cash and cash equivalents | 40,442 | 36,767 |
| Total | $ 715,287 | $ 539,685 |

## (4) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following at June 30, 1991 and 1990:

| | 1991 | 1990 |
|---|---|---|
| Interest-bearing deposits | $ 88 | $ 93 |
| Cash from investment maturities in transit | 912 | 32,000 |
| Repurchase agreement | 16,200 | 11,633 |
| Total cash and cash equivalents | $ 17,200 | $43,726 |

## (5) International Equities

International equities are comprised of the following at June 30, 1991 and 1990:

| | 1991 | 1990 |
|---|---|---|
| International equities, at market | $102,830 | $117,153 |
| Cash and cash equivalents | 7,117 | 6,343 |
| Total international equities | $109,947 | $123,496 |

Included in international equities are forward exchange contracts to buy and sell international currency. Such contracts have no significant effect on the book or market values of the total international equities.

## (6) Real Estate Mortgages

Real estate mortgages are comprised of the following at June 30, 1991 and 1990 (book values presented):

| | 1991 | 1990 |
|---|---|---|
| Real estate loans current or less than ninety days past due | $55,849 | $57,481 |
| Real estate loans ninety days past due | 11,612 | 18,883 |
| Real estate acquired by foreclosure awaiting liquidation | 11,375 | 10,940 |
| Total | $78,836 | $87,304 |
| Allowance for real estate loan losses | $ 4,574 | $5,170 |

The balance in the allowance for loan losses is in management's opinion adequate to absorb known and expected losses in the mortgage loan portfolio.

### (7) Safekeeping Risk

The Fund's deposits and investments are categorized below pursuant to Governmental Accounting Standards Board (GASB) Statement Number 3 and GASB Technical Bulletin No. 87-1 to give an indication of the level of safekeeping risk assumed by the Fund at statement date.

**Deposits:**

1. Insured or collateralized with securities held by the State or by its custodian in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.
3. Uncollateralized.

**Investments:**

1. Insured or registered for which the securities are held by the State or its custodian in the State's name.
2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.
3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

At June 30, 1991, all of the Fund's deposits and investments were considered to be Category 1 with respect to safekeeping risk.

# STATISTICAL SECTION

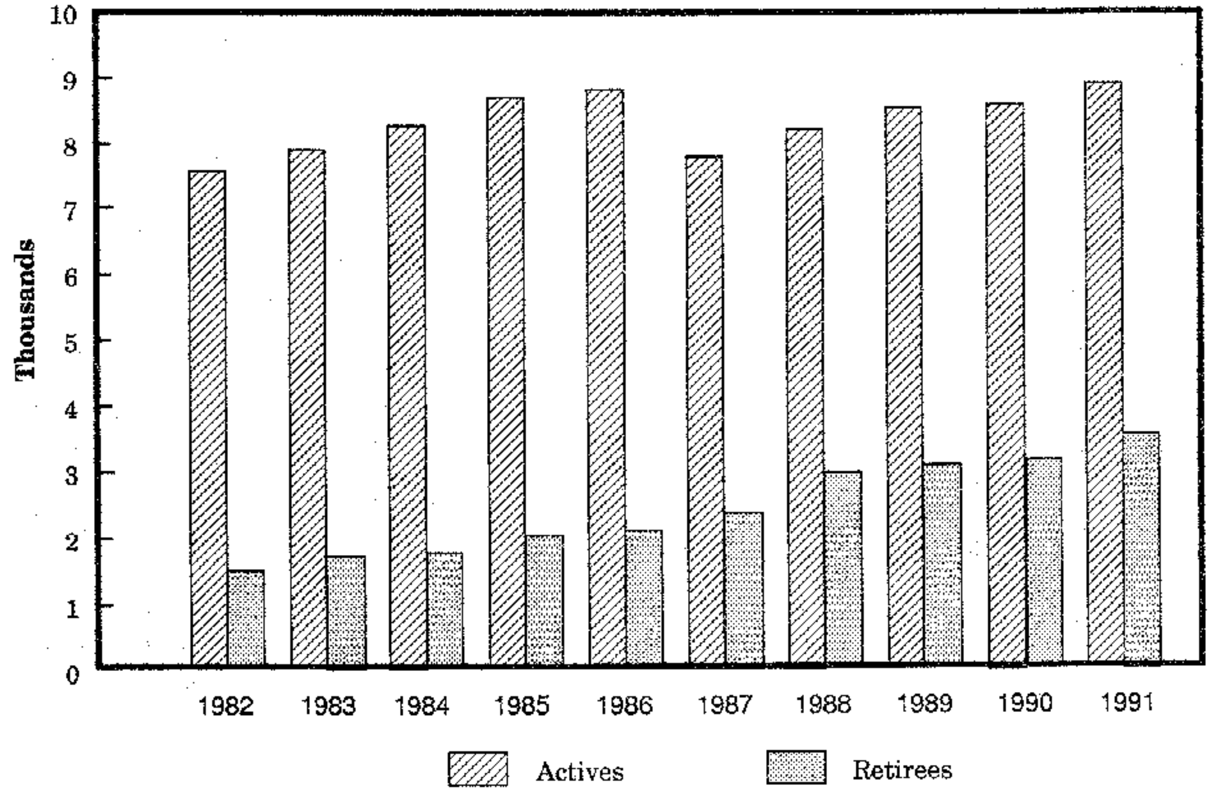
## EMPLOYER CONTRIBUTION RATES
## FISCAL YEAR 1991

| Employer | Percentage |
| --- | --- |
| Adak Region School District | |
| Adak Region Schools | 10.54% |
| Alaska Department of Education | |
| Alaska Gateway School District | |
| Alaska, University of | |
| Alaska Geophysical Institute, University of | |
| Alaska State Legislature | S |
| Aleutian Region School District | A |
| Aleutians East Borough School District | M |
| Anchorage School District | E |
| Annette Island School District | |
| Association of Alaska School Boards | F |
| | O |
| Bering Strait School District | R |
| Bristol Bay Borough School District | |
| | A |
| Chatham School District | L |
| Chugach School District | L |
| Copper River School District | |
| Cordova Public Schools | E |
| Craig City School District | M |
| | P |
| Delta-Greely School District | L |
| Dillingham City School District | O |
| | Y |
| Fairbanks North Star Borough School District | E |
| | R |
| Galena City School District | S |
| Haines Borough School District | |
| Hoonah City School District | |
| Hydaburg School District | |
| Iditarod Area School District | |
| Juneau School District, City and Borough of | |
| Kake City School District | |
| Kashunamuit School District | |
| Kenai Peninsula Borough School District | |
| Ketchikan Gateway Borough School District | |
| Klawock City School District | |
| Kodiak Island Borough School District | |
| Kuspuk School District | |

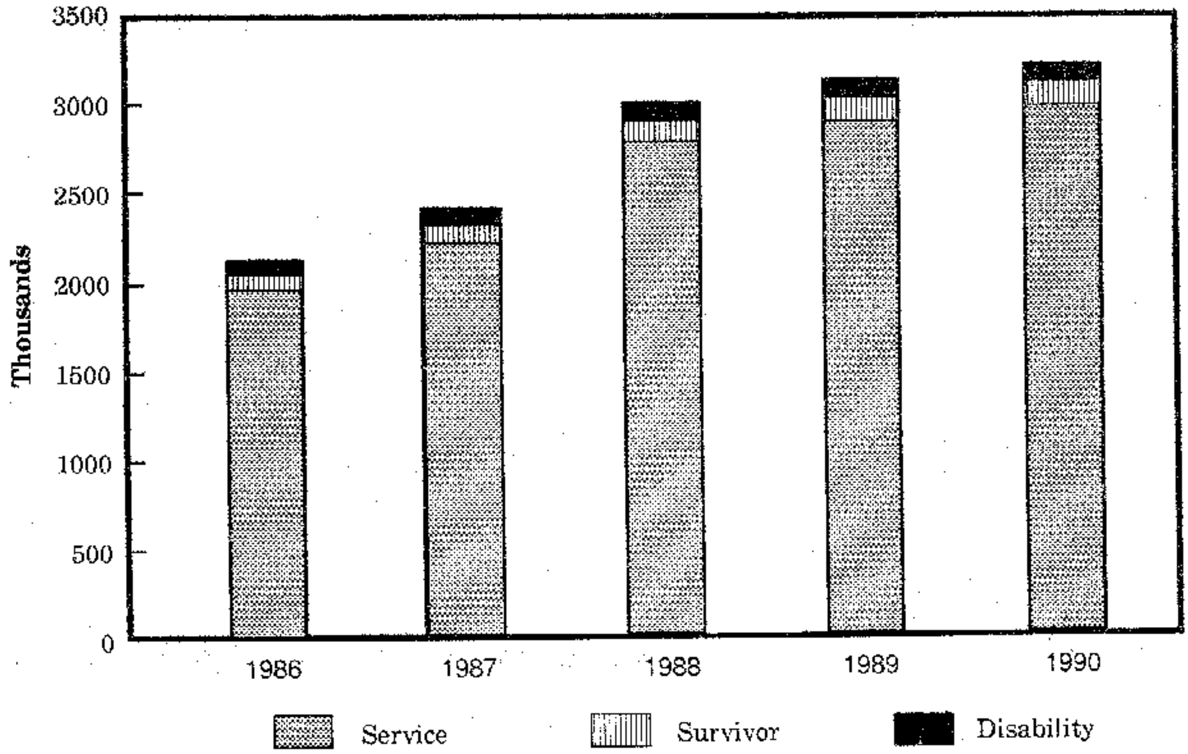
## EMPLOYER CONTRIBUTION RATES
## FISCAL YEAR 1991

| Employer (continued) | Percentage |
|---|---|
| Lake and Peninsula School District | 10.54% |
| Lower Kuskokwim School District | |
| Lower Yukon School District | |
| Matanuska-Susitna Borough School District | |
| National Education Association - Alaska | |
| Nenana Public Schools | |
| Nome Public School | S |
| North Slope Borough School District | A |
| Northwest Borough Arctic School District | M |
| | E |
| Pelican School District | F |
| Petersburg Public Schools | O |
| Pribilof School District | R |
| Railbelt School District | A |
| Saint Mary's School District | L |
| Sitka School District | L |
| Skagway City School District | E |
| Southeast Island School District | M |
| Southeast Regional Resource Center | P |
| Southwest Region Schools | L |
| Special Education Service Agency | O |
| | Y |
| Tanana City School District | E |
| | R |
| Unalaska School District | S |
| Valdez City Schools | |
| Wrangell School District | |
| Yakutat City School District | |
| Yukon Flats School District | |
| Yukon-Koyukuk School District | |
| Yupiit School District | |

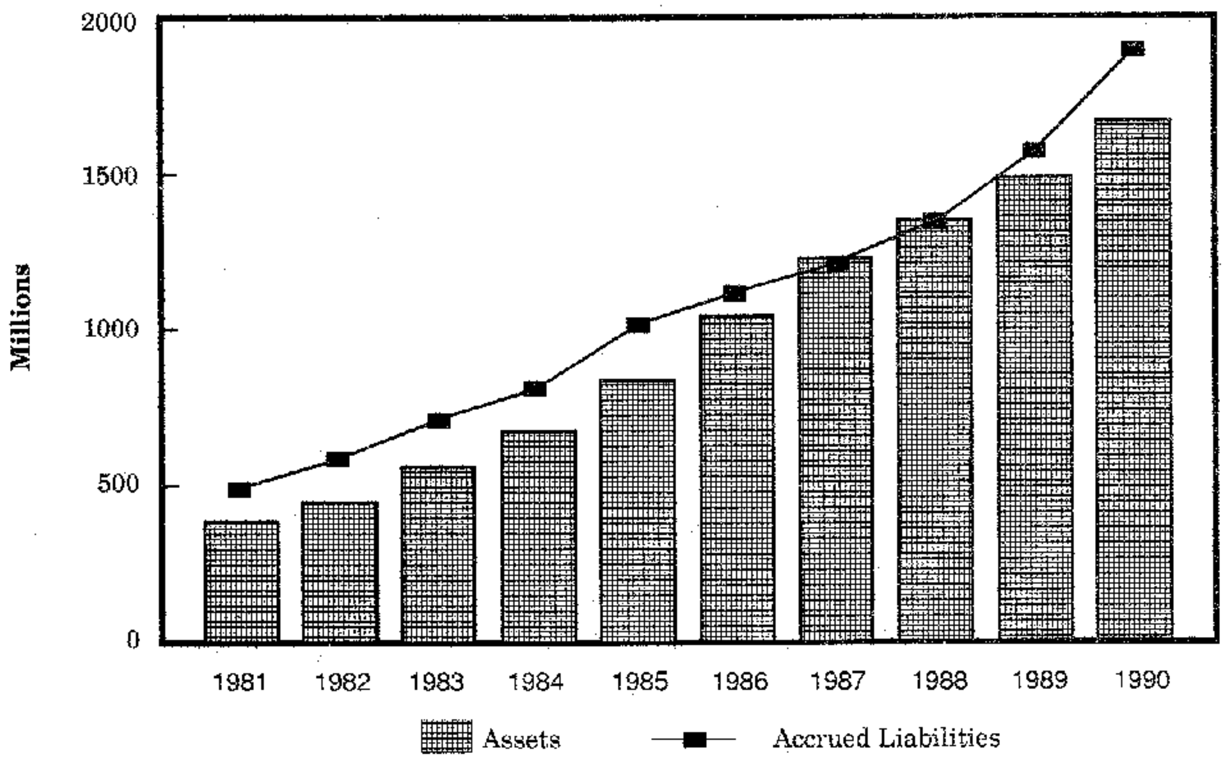
## 10-YEAR COMPARISON OF ACTIVES VS. RETIREES



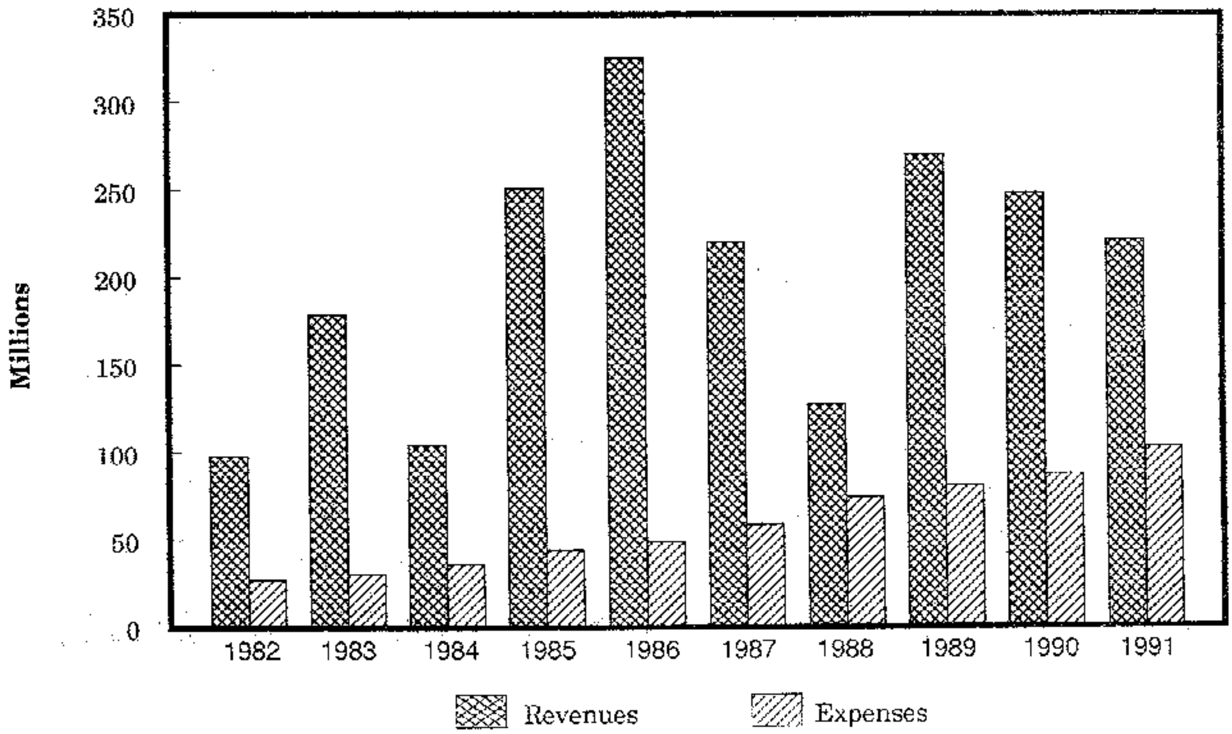

## 5-YEAR BREAKDOWN OF RETIREES BY TYPE



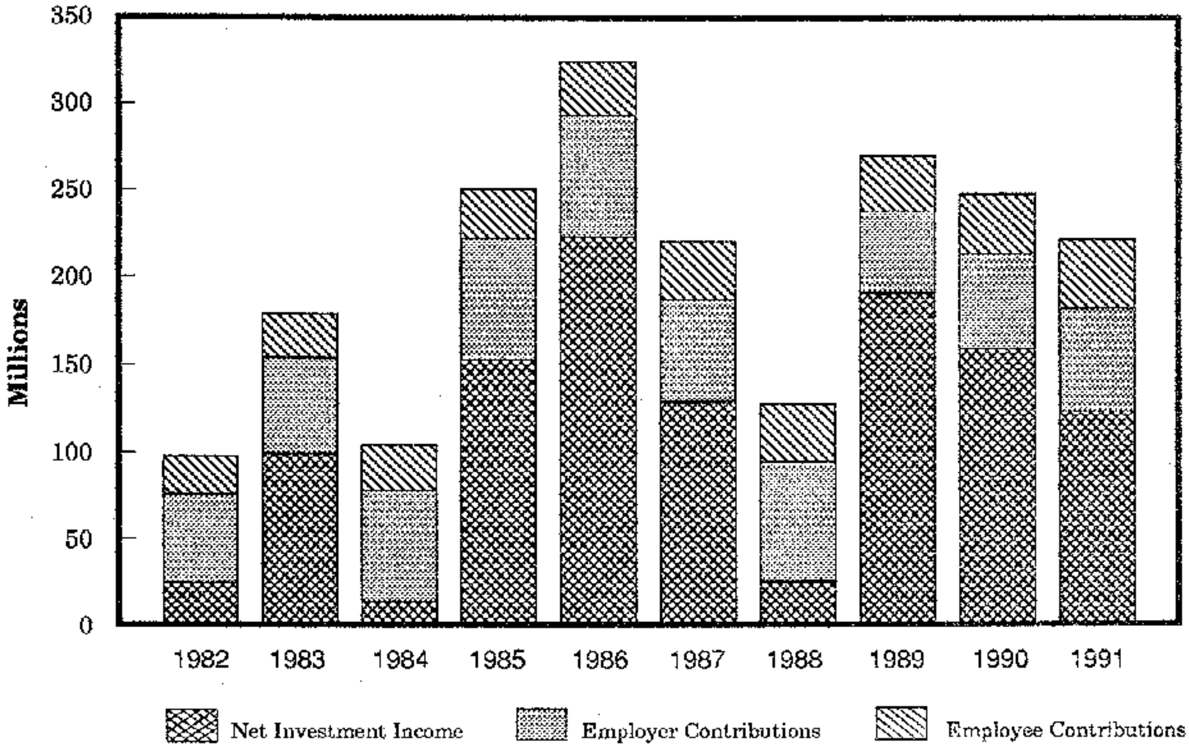
## 10-YEAR COMPARISON OF VALUATION ASSETS VS. ACCRUED LIABILITIES



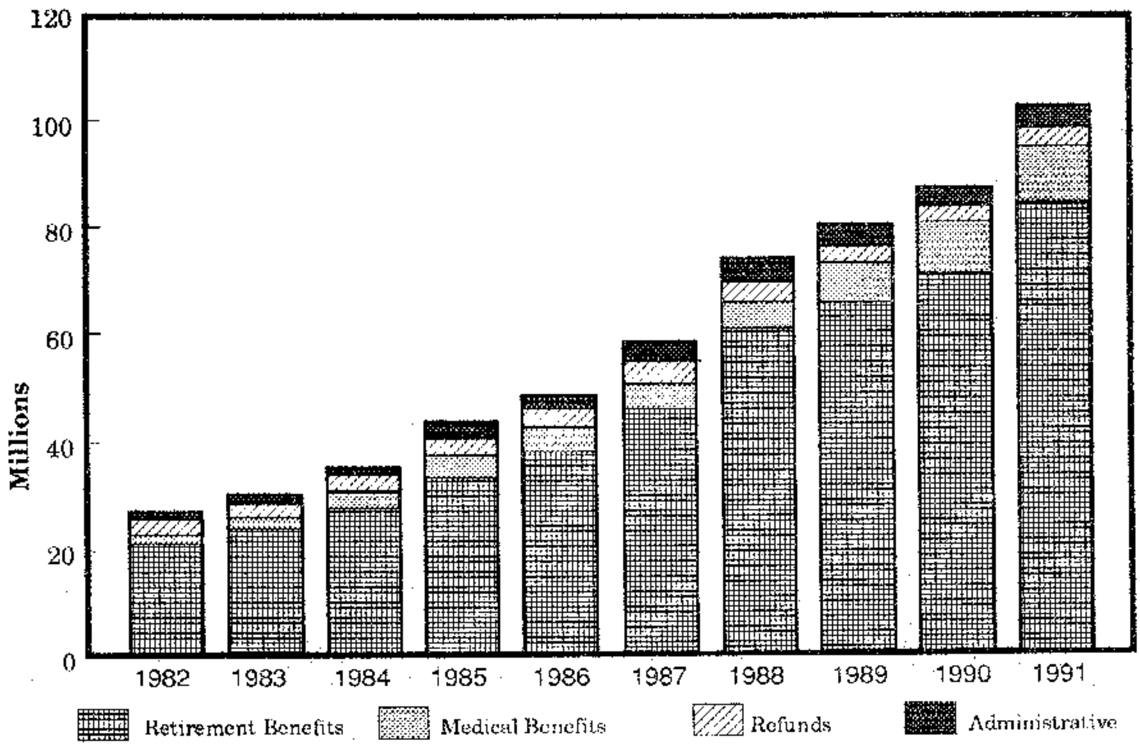

## 10-YEAR COMPARISON OF REVENUES AND EXPENSES



# 10-YEAR BREAKDOWN OF REVENUE BY SOURCE




# 10-YEAR BREAKDOWN OF EXPENSES BY TYPE



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# STATE OF ALASKA

For the Fiscal Year
July 1, 1990 - June 30, 1991

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TEACHERS' RETIREMENT SYSTEM

# COMPONENT UNIT ANNUAL FINANCIAL REPORT

Prepared by
Department of Administration
Division of Retirement and Benefits

COVER PHOTO: "Tundra/Alaska Caribou" Courtesy of Alaska Department of Commerce and Economic Development, Division of Tourism